What did California do with prosperity?

california JOURNAL

MAY 2002
$3.95
a State Net Publication

THE POLITICS OF EDUCATION

Teachers make a new grab for power

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Salud

Sexually healthy teens are less likely to become parents. But what does it mean for teens to be sexually healthy? It means that they have the knowledge and skills they need to make responsible decisions about their sexual behavior. It means that they understand sexual development and feelings. It means they have the skills and self-esteem to set personal boundaries. And it means they're motivated to think about the future consequences of the decisions they make today.

What can you do?

Consider the "whole teen" when making program and policy decisions that affect teen health.

Support community and school programs that promote healthy adolescent sexuality and teen pregnancy prevention.

Help the teens in your family develop healthy values and attitudes about their own sexuality and learn how to prevent unplanned pregnancies.

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Teen pregnancy is also an adult problem. Let's solve it togethe

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May 2002
Volume XXXIII, Number 5

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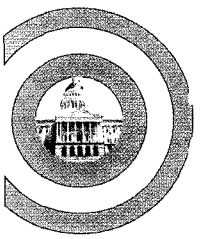
Politics or policy?

By David Lesher

What is the difference between politics and policy? It's not a stumper, although we'll make exception for those in the state Capitol. Websters Dictionary defines policy as "a principle, plan or course of action pursued by government." Politics, it says, is "political methods, tactics etc., sometimes... crafty or unprincipled methods." Before you give your own answer, read this issue of the *California Journal*. Two stories—one about a hot-potato education bill by Lynda Gledhill and another about tangled energy regulations by Dana Wilkie—describe policy and politics as two ingredients of the same soup. Whether it is school textbooks or clean air, the policy debate is political strategy. Also, as lawmakers consider the first deficit budget in years, the *Journal* looks back at the good times and asks, 'Where did all the money go?'

Teachers pick a fight



The powerful California Teachers Association wants teachers in the driver's seat on education reforms. Their unprecedented plan divides the education community and the Democratic Party.
By Lynda Gledhill

Passing the test

If the majority of California freshman tubed the first round of the state's new high school exit exam, then why do some teens, like sophomore Molly Gaebler, wonder why the test is so easy?
By Molly Gaebler

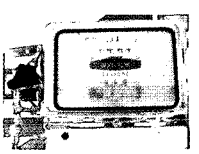
Reed Hastings

Four years ago, high-tech tycoon Reed Hastings made a legislative splash with his charter schools' initiative. Today he's charting education's course as president of the state Board of Education.
By Kathleen Les

Whither prosperity?

Capital gains tax revenue grew by 700 percent starting in the mid-1990s, giving lawmakers the financial wherewithal to double state spending in just six years. So what do we have to show for prosperity's meteoric rise?
By Cynthia Halleen Craft

Clean gas, hot air



Both President George Bush and Governor Gray Davis agree that the goal is clean air. But both have powerful political motivations for their decisions about whether gasoline is made with ethanol or MTBE or some other additive.
By Dana Wilkie

The energy divide

The lights are on again and blackouts no longer a worry. But a long-term energy solution is far from resolved. The biggest question still remains: Will California's energy market be heavily regulated or will competition be given free rein?
By Richard Nemec

Cover by Dagmar Thompson

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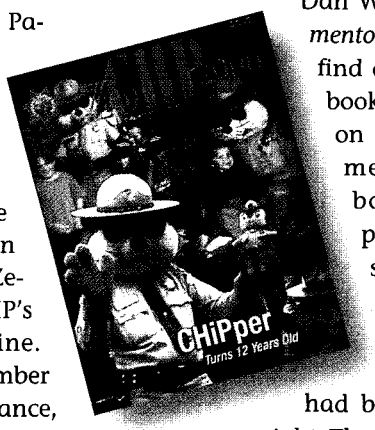
umbrage

Budget this. As you read this, wonks who labor for both the Legislature and the governor's Department of Finance are up to their furrowed eyebrows in red ink. Their task: find more than $17 billion worth of cuts in state programs in order to balance the 2002-03 state budget. Here's a place to look: the California Highway Patrol. We're not suggesting, of course, that they do away with the CHP. But they might want to recommend that the agency scale back on something called "Zenith 12000," the CHP's bi-monthly magazine. The November/December 2001 edition, for instance, is 96 pages long, printed on slick paper and contains 36 pages of four-color photographs. According to the CHP, it cost $40,000, even with a deal from its printer — U.C. Berkeley Press. CHP public-affairs director Tom Marshall says the magazine serves as a morale builder and recruitment tool and, as such, is sent to high school and military libraries, as well as to the agency's far-flung corps. Meanwhile, the magazine has been given an award from the State Information Officers' Council.



Budget that. Election officials in San Francisco have had their share of problems of late. After all, ballot boxes floating in the Bay can undermine voter confidence. So when it came time to prepare for the March 2002 primary, the county's Elections Department wasn't going to take any chances. It printed, report *San Francisco Chronicle* columnists Phillip Matier and Andrew Ross, 3 million ballot cards, at a cost of $1.6 million. That's a little more than 50 cents per card. It used 450,000 cards. The remaining 2.5 million are in a queue for the shredder. Also shredded: about $1.3 million. To be fair, San Francisco wasn't the only county that overprinted ballots; most every other registrar did the same.

Cloned. When he arrived to give a speech to the Public Affairs Council in Sacramento last month, political columnist Dan Walters of *The Sacramento Bee* was surprised to find a stack of his latest book, "The Third House," on a table outside the meeting room. The book's coming-out party wasn't even scheduled until later that week, and Walters did not think that copies had been distributed. He was right. The book on display was not written by Walters but by Alan Rosenthal of the Eagleton Institute of Politics at Rutgers and a leading expert on state legislatures. Walters was confused because both books have the same title, cover the same subject (lobbying), are the same size and even have similar covers. Rosenthal's book, however, is a revise, the original having been published several years ago. It's either a case of great minds thinking alike — or failure to do even a simple title search before naming your book.

Corrections. In our election coverage last month, we reported that the California Union of Safety Employees sent out a slate mailer in the 4th Senate District Republican primary on behalf of Assemblyman Dick Dickerson. CSUE says it was not responsible for that mailer, and editors regret the error. Also, in our wrap-up on ballot measures, we said that Proposition 180, a 1994 park bond, had passed. It actually failed. And finally — whew — our map of Assembly districts omitted AD 78 and AD 79, both in San Diego.

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School Watch:

Back to basics

If he wanted to help boost test scores of minority students, reasoned Philip Moore, principal of T.R. Smedberg Middle School in Elk Grove, then why not hold targeted meetings for parents by racial and ethnic group. It was a focused way to reach parents, especially those often scarce on his 1600-student campus and whose children typically fall on the down side of the "achievement gap."

No sooner were invitation letters sent home, offering a meeting on ways to improve student performance than a flurry of media — both newspapers and television — came calling. Not because of any publicity Moore was seeking, but because a few parents squawked about segregating families at a time when schools are supposed to be focusing on helping students across the ethnic and economic spectrum.

But Moore isn't complaining about publicity, even if some of it was negative.

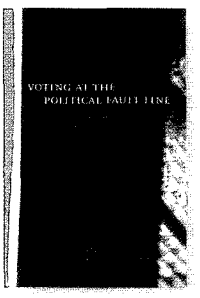
Moore, who himself is African American, was elated with the results of last month's four scheduled meetings, one each for Asian, Caucasian, Latino and African American parents. On the first night, 60 Asian parents showed up, participating enthusiastically. "They didn't want to leave," said an Elk Grove School District spokesperson.

Subsequent meetings turned up similarly successful results with nearly a quarter of invited parents showing up. It may not sound like a lot. But in an age when teachers and principals are under the gun to drive up test scores, sometimes anything is worth a try.

Excerpts:

From the bookshelf

Voting at the Political Fault Line
By Bruce E. Cain and
Elisabeth R. Gerber



Proposition 198, passed in 1996, briefly altered California's political landscape. By allowing voters to participate in any party primary, proponents hoped to encourage overall participation and to moderate the major parties by forcing candidates to appeal to the political middle rather than to the extremes that often dominate primaries. In June 2000, however, the U.S. Supreme Court struck down 198 as violating the parties' rights of association. By then, it had been in operation for primaries in 1998 and 2000.

The blanket primary's romp across the stage was fleeting, yet it offered political scientists a chance to study voting patterns in two distinct systems: closed and blanket primaries. To that end, Bruce Cain of the University of California, Berkeley, and Elisabeth Gerber of the University of Michigan sifted through research from various sources, with mixed conclusions. Voter participation increased, but not much, while crossover-voting patterns largely depended on individual contests. But the blanket primary did achieve one of its proponents major goals, especially in races for the Legislature: Moderate candidates had a significantly better chance to win.

Quotables.....

"It is appalling that the lobbying costs of companies who regularly argue against the interests of the public and consumers have their lobbying costs subsidized by those very consumers."

— Senator Jackie Speier (D) on California tax law that allows lobbyists to deduct their expenses, costing the state $7 million a year.

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letters

High-tech voting

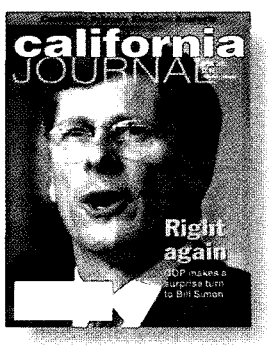
Touch-screen voting machines examined in your article ["The End of Voting as We Know It," March 2002] get rave reviews. In reality, these clunkers are nothing more than hugely expensive, super-dumb, do-one-thing-only computers that come with ridiculously overpriced touch-screen monitors and, sometimes, printers.

There is, however, an inexpensive and more technologically advanced and flexible alternative. Powerful PCs can be bought or leased for next to nothing (especially in bulk) as opposed to dedicated electronic voting machines.

Smart PCs can be used for much more than merely casting and counting ballots every couple of years. Between elections, they can be used in libraries, schools, hospitals, government offices because they are relatively easy and inexpensive to set up and maintain.

If electronic voting is indeed to be our direction of choice, then using cheap, smart touch-screen PCs, and not expensive dumb electronic voting machines, seems the sensible route to go. They are miles less costly, just as easy or easier to use, and as secure, if not more so. Plus they are a snap to maintain and their hardware and software is easily and inexpensively upgraded.

Bill Homer
Los Angeles



Democrats and Enron

Marc Sandalow's column ["Enron and the Bush Agenda," March, 2002], suggests that the Enron scandal has given Democrats the opportunity to seize the initiative on issues such as Social Security, energy reform, and economic stimulus.

A more significant opportunity for Democrats is to use the public outrage generated by Enron to get rid of the pervasive corruption that plagues our political system and that allowed Enron and other energy companies to steal $40 billion from California ratepayers. We must find out how and why the rules and regulations governing massive energy companies were changed or ignored. Californians should demand that an independent special prosecutor look into Enron. We must use the current focus on Enron as the impetus to fundamentally change our nation for the better.

Congressman Bob Filner, Democrat
San Diego

Now who's radical?

Many writers in your magazine take Republicans to task for being "extremist" and "right wing." But let's look at the facts about Democrats and their false claim to the mantle of "moderation." Democrats are more "extreme" and "radical" and more out of touch with the average Californian.

Consider this: Democrats strongly opposed Proposition 209, the anti-affirmative action measure that passed overwhelmingly. Democrats also strongly opposed Proposition 227, regulating bilingual teaching for immigrant children and the "three strikes" initiative, which passed in a landslide. In each case, Republicans were in sync with the heartbeat of California.

Democrats also opposed Proposition 187 that would have prevented illegal aliens from receiving government benefits. Although passed, Proposition 187 was later gutted in court and then largely reinstated by Congress the following year. When homosexual marriage was brought to a vote, the average Californian overwhelmingly agreed with Republicans that marriage is both historically and biblically the province of heterosexual couples. This didn't stop the leftist-controlled Democratic Legislature, however, from redefining homosexual unions to essentially have the rights of marriage.

Which political party would the unbiased reader call "radical" and "extreme"?

Adam Sparks
San Francisco

Jones about-face

I twisted my neck reading the Bill Jones piece [Soapbox, April 2002].

For months, Jones had basically been calling Bill Simon a rich political playboy for not voting and being too extreme for California voters. Now, Jones announces he's a co-chair of the Simon campaign.

Florida's Secretary of State Katherine Harris got in trouble for being the official vote counter and the co-chair of the Bush Jr. campaign, so Jones should step away from the Simon campaign — they don't like each other anyway.

Jones says he'll move back to his cattle ranch in Fresno next January. But the article by Jones looks like he's already shoveling the manure.

Bob Mulholland
California Democratic Party

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Learning to end welfare

by Susan Rasky

The new requirements for work got a lot of headlines six years ago when Congress overhauled the nation's welfare laws, but the sleeper in the welfare reform story has always been education.

Should able-bodied adults making the transition from welfare to the job market be allowed to fulfill their work obligation by enrolling in vocational training programs or college level courses?

In the end, Congress decided on half a loaf. Welfare's lean and mean successor, the program known as Temporary Aid for Needy Families or TANF, said folks receiving benefits had to work between 20 and 30 hours a week, depending on whether they had children, and that they could not count more than 12 months of vocational education toward the work requirement.

That effectively ruled out programs training people for higher wage jobs like registered nurses or dental hygienists or even credentialed day care workers.

States were free to be more flexible in their approach as long as specified percentages of their welfare families were meeting the federal work requirements. In California, that translated to a fairly extensive menu of employment services under the CalWORKs program, including child care, job search assistance and substance abuse treatment. It also meant an array of vocational training programs handled through the community college system.

Now, the first measurements are in about how some 38,000 CalWORKs recipients who attended community college in 1999 have fared in terms of earning power and work force attachment. Data collected by the Community Colleges Chancellor's Office show that median annual income for the 4,315 recipients who completed vocational education programs was up by 75 percent a year after college, rising from $9,000 to $15,921. The gains are even more impressive when compared to the general student body. Earnings for non-CalWORKs students enrolled in vocational programs rose by only 32 percent, from just under $18,000 a year to $23,637.

For both types of students, completion of an actual certificate or degree program meant even bigger income gains, and separate data showed that three years after leaving college, income levels for CalWORKs students had caught up to those of their non-welfare classmates.

It's hardly rocket science. The findings suggest that equipping people with better skills gives them better earning power job. But for years, particularly in this state, the mantra from welfare efficiency experts was that a job—any job—was the trick to getting off of welfare.

So just when we have data that seem to prove the contrary, both President Bush and Governor Gray Davis, are pushing proposals that would make it more difficult for welfare recipients to take advantage of higher education opportunities.

It's hardly rocket science. The findings suggest that equipping people with better skills gives them better earning power than a minimum wage job.

Legislation reauthorizing the TANF program is now making its way through Congress, and Bush wants to increase the hours of required work per week to 40 for most families. He also asked Congress to require that 70 percent of a state's welfare caseload meet the work standards by 2007. The changes would make it substantially more difficult for California to include certain types of job training under the work requirement.

At the same time, Davis, in addition to his other deficit woes, is coping with a half a billion dollar deficit in the CalWORKs budget. That's partly because the $3.7 billion federal grant has not kept up with the increasingly costly programs designed by California lawmakers. Davis, desperate for budget savings is now looking to cut about $54.8 million that goes to community colleges for CalWORKs students and about $36 million from adult education funds for this group.

Congress has to complete its work on TANF before the fiscal year ends on Sept. 30. California will be deciding on Davis' proposals as part of this year's state budget process, which is supposed to be completed by July 1. But scores of competing claims on the federal money could severely complicate the broader state budget fights.

However you slice it, this year looks ugly. The bright spot, if anybody is willing to pay attention, is the opportunity to make some adjustments to TANF and CalWORKs that promise real returns.

At the very least, the fellow who calls himself the education president and the fellow who calls himself the education governor should be looking elsewhere to solve their deficit problems.

Susan Rasky teaches at the University of California, Berkeley, Graduate School of Journalism. Comments may be sent to **edit@statenet.com.**

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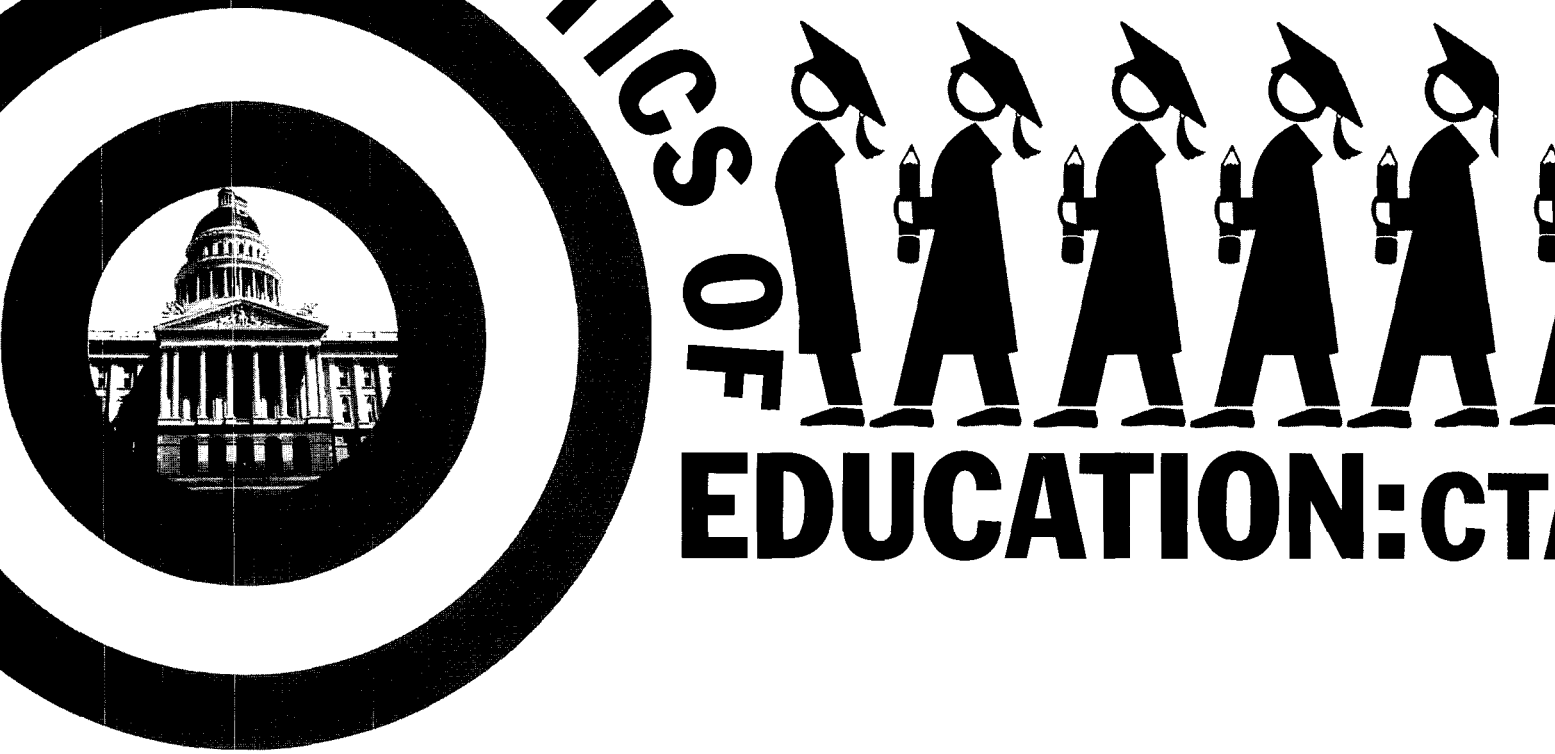
THE POLITICS OF EDUCATION: CT



"Children aren't widgets and a classroom is not an assembly line."

From merit pay, to training programs, testing requirements and financial rewards, California teachers have been the target of many recent education reforms. Now they're fighting back. But their unprecedented union-backed plan to take control of textbook and curriculum decisions has forced a high stakes showdown that divides the education community and the Democratic Party.

Those fighting words poured out of radios across the state this spring as the powerful California Teachers Association launched Sacramento's biggest education battle of the year. Their bill, AB 2160, would grant unprecedented authority to teachers and their union by including textbook choices, curriculum design and even school maintenance decisions in the collective bargaining negotiations that are now limited mostly to wages and benefits.

Teachers say the bill is a reaction to many of the recent education reforms that have been popular with politicians but which have increased the accountability and the burden on classroom teachers. If lawmakers set academic goals, teachers say, then they want to choose the tools to achieve those goals.

"We are held accountable to a set of standards, for the most part, picked by politicians," said Mark Knapp, president of the San Diego Educational System, which represents teachers there. "We're saying, 'Get out of our way and we will get there.'"

Even before its first hearing, the bill triggered enor-

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picks a fight

By Lynda Gledhill

mous controversy and a high-stakes political showdown. It split the education community, with school administrators saying the process of negotiating wages is often too adversarial for constructive decision-making about books and curriculum. Several have branded the bill a dangerous and unnecessary "power grab" by the union.

"If it passes, let me make a prediction," said Roy Romer, president of the Los Angeles Unified School District and former chairman of the Democratic National Committee. "This is going to be the biggest shot in the arm for vouchers this state will ever see ... I want it killed. You don't play with this kind of thing."

The bill also threatens to split the Democratic Party. Some party members, including Governor Gray Davis, have expressed concern about the merits of the plan. But the pressure to support it is considerable because the teachers' union is the second largest contributor to the Democratic Party and two of the co-authors of the bill are Assembly Speaker Herb Wesson (D-Los Angeles), and Assemblywoman Virginia Strom-Martin, (D-Duncan Mills), chair of the Assembly Education Committee.

"This is a very contentious, minefield-ridden terrain," said Assemblywoman Carole Migden (D-San Francisco), who sits on the first committee to hear the bill.

Wesson said he would use his power to support the bill.

"I'm going to do everything I can to move it," he said in April. "It just makes sense that teachers should have significant input. I don't understand the mass hysteria. Every interest group, every time there is a bill they don't like, they say the sky is falling. But it never does."

With the speaker's critical backing, the bill is likely to succeed in the Senate. There, President pro Tem John Burton (D-San Francisco), said he has not focused on the measure.

But the biggest political drama is the fact that some consider the bill a direct challenge to Davis, who has received substantial contributions from the teachers' union but has opposed the organization on some key education reforms.

Davis has not taken a public position on the bill, but he told reporters last month that "he does not want textbooks to be held hostage on issues involving wages." He added, however, that he supports a formal role for teachers in the selection of textbooks. If the bill reaches his desk, it would be politically difficult and embarassing for the governor to veto an education bill in an election year. The governor met with CTA president Wayne Johnson for three hours in April to talk about the bill, attention not bestowed on many bills or interest groups.

But Johnson still responded angrily to Davis' com-

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ments on the bill, warning that "this will be another major problem with him and the teachers."

Johnson denies that the bill's introduction was timed for maximum political advantage. As he enters his last year as president, Johnson said he wanted to move the bill when there was a solidly Democratic Legislature and governor. Initially, Johnson said the union did not anticipate the election year would pressure Davis to sign the bill because they thought he would easily win re-election.

"Gray Davis had $30 million, and no one appeared like they were going to mount a serious challenge," Johnson said. "We were not going to have much leverage."

But after the energy crisis, Davis' poll ratings dropped precipitously and he now faces a difficult campaign against Republican Bill Simon. "It turns out that things have gotten a little bit better than we planned," Johnson said

Opponents of the CTA bill, say it is "ludicrous" for Johnson to deny the union's political manipulation.

"The CTA is a master at pressure and opportunistic tactics," said Scott Plotkin, executive director of the California School Boards Association. "They timed it well to pursue one of the most controversial bills they have ever introduced."

The bill is considered a "power grab" by the elected representatives of school boards and administrators, who now make some of the decisions that the bill would assign to collective bargaining negotiations. The critics say the legislation could undermine parental involvement on school boards.

"In its starkest terms, this bill is not about collaboration, it is about power and control," Plotkin said.

Other education officials said the bill's politically powerful subject matter — education and labor — make it hard to convince lawmakers to consider the bill's down sides.

"One of the difficulties is that, on the natural, a lot of members of the Legislature support unions," said Laura Walker Jeffries, lobbyist for the Association of California School Administrators. "And they are being told this is a way for teachers to get more of a voice."

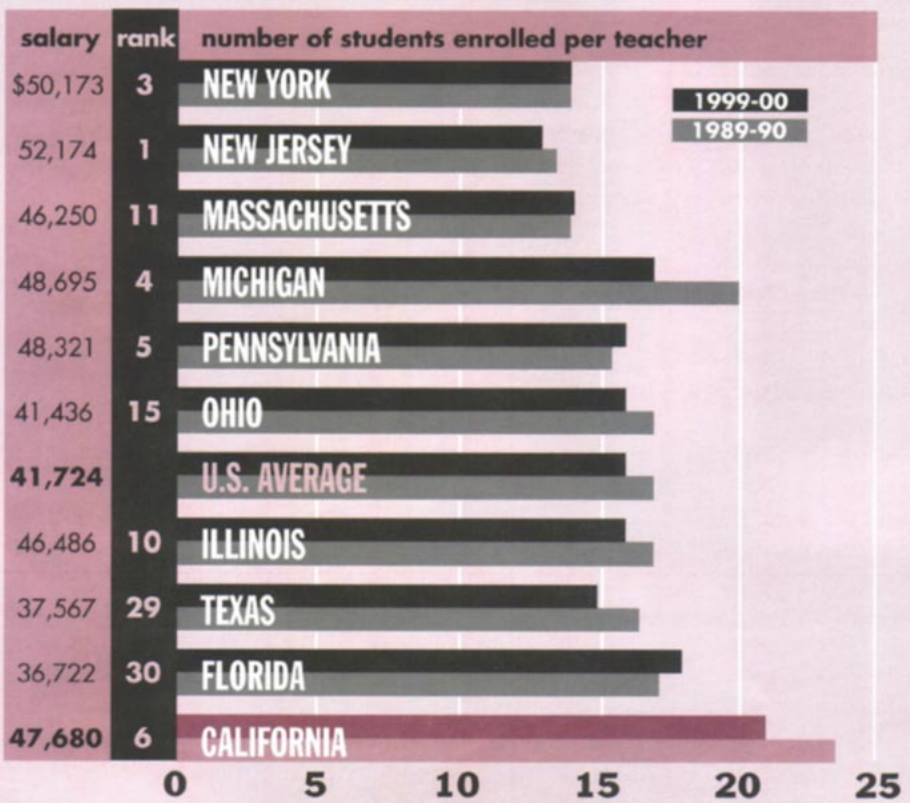
"Sometimes Sacramento is like a vacuum," she said. "And this bill emphasizes that. There is a true lack of understanding as to what collective bargaining is."

The issue has divided the Democratic caucus. Senator Dede Alpert (D-Coronado), opposes the bill because collective bargaining should not be the vehicle for teacher involvement. "This is just usurping school boards and parents' rights — who are the ones who should actually be in charge," Alpert said.

But Alpert is in her last term making it easier for her to take that position. She said she feels strongly about this bill and has been supportive of CTA on many other issues.

"The union's job is to represent workers," she said. "Those interests may or may not coincide with the interests of [students] in the state. My job is to judge the policy on

How California measures up



In the 1999-2000 school year, California schools had more students per teacher than all other states except one and almost five students more than the U.S. average. The California ratio in 1999-2000 stood at 20.9 students per teacher in contrast to the U.S. average of 16.1. Only Utah, at 21.5 students per teacher, exceeded California while Vermont had the smallest ratio at 12.3.

When California implemented class-size reduction in 1996-97 for grades kindergarten through third, the per-pupil ratio dropped. However, as this chart shows, that was not enought to catch up with other large states.

Source: Rankings and Estimates 2000-2001,National Education Association

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that criteria.'

No other state uses collective bargaining negotiations to make textbook and curriculum decisions. Instead, CTA says its proposal is motivated most recently by the experience of teachers in San Diego, where a highly charged struggle with school administrators over control and authority has been underway for months. San Diego teachers like Betsy Chamberlain, a kindergarten instructor at Field Elementary School, say they are being shut out of the process, which is why the change in law is necessary.

"It is a top-down, my-way-or-the-highway system," said Knapp, the San Diego teachers' representative. "Unfortunately, we have been in a pitch battle with the district."

Knapp blamed the current school district management for an exodus of about 3,000 teachers in the past few years as well as for the loss of principals, a drop in enrollment and a lack of qualified new teachers wanting to work in the district.

"They feel like they are being treated and looked upon as if they are worthless," said Knapp. "If all we do is harass them and treat them like this, believe me, the teacher shortage isn't going to get better, it is going to get worse."

But Plotkin, the school boards official, complained that teachers should not try to fix a problem in San Diego with a statewide law. "You don't take one district out of 1,037, where bad decisions are being made, and fix it by enacting a state policy for everybody," Plotkin said. "Imposing this model is not the answer."

He also said many school officials have sympathy and understanding for the increased pressure on teachers as a result of new education reforms passed by state lawmakers.

"The CTA has a point," he said. "They are quite rightly frustrated. Many of the actions taken by the Legislature, the governors — both Wilson and Davis — and the state Board of Education restricts and limits the discretion school districts have to make decisions."

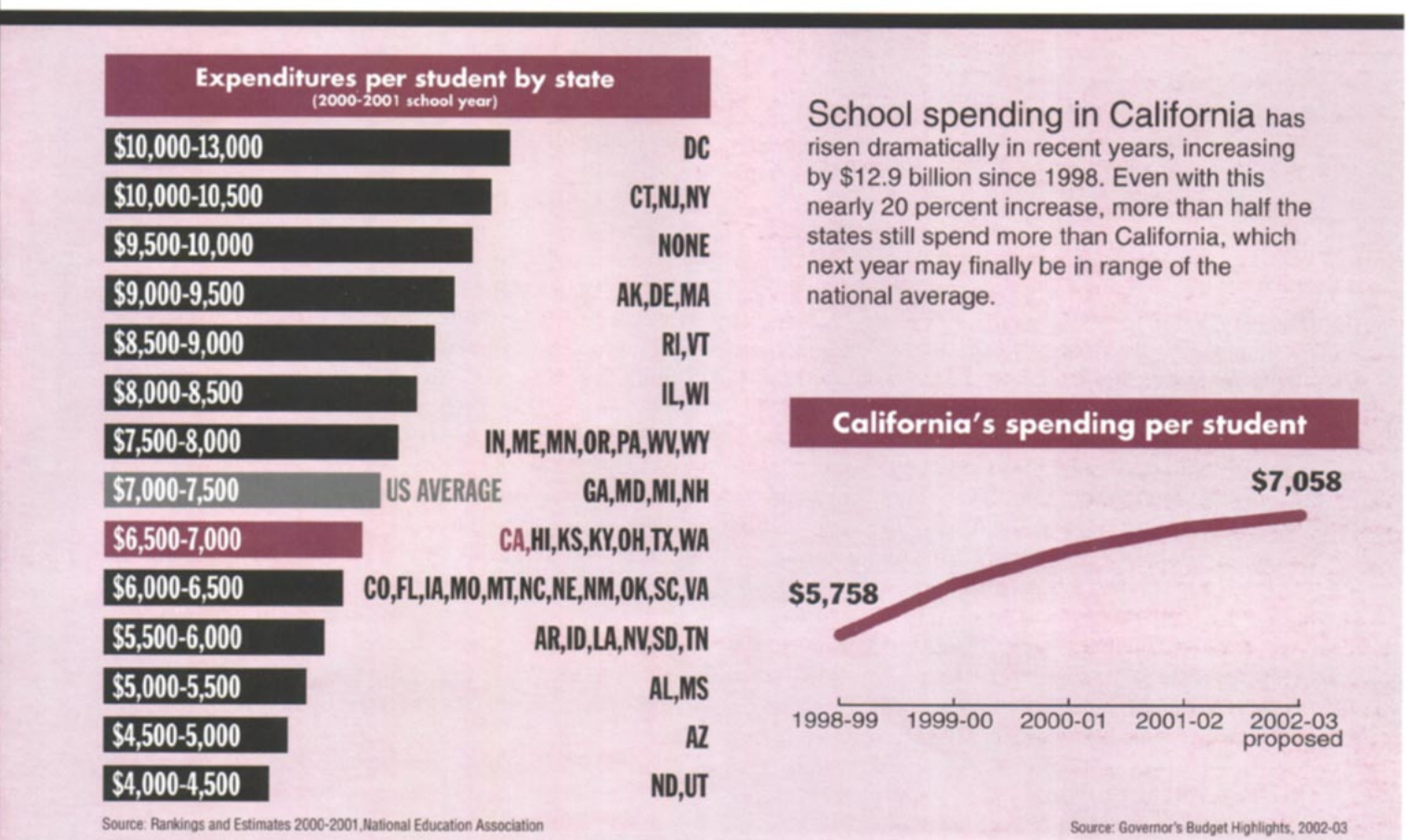
The statewide school board association president agreed.

"I wonder if the teachers aren't shooting at the wrong target," said Dan Walden, who is also a school board member in Walnut Creek. "The problem isn't the district, it is also the Legislature. Maybe it is time we put our heads together for a collaborative effort."

Plotkin argued that state law already requires teacher involvement in textbook and curriculum decisions. And he said the majority of school districts are already working with teachers in many such areas.

Currently, the process for curriculum and textbook decisions is different for the various school districts. In general, however, the decisions are made by administrators or school boards with advice from teachers or from decision-making panels that include teachers.

Assemblywoman Jackie Goldberg (D-Los Angeles),



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"If the top-down approach — whether it is the state Board of Education or downtown in a district office somewhere — was going to work, it would have worked by now." ***— Assemblywoman Jackie Goldberg***

who is carrying the bill for the CTA, said, however, that the process often does not adequately represent teachers. She said some school administrators only consult with teachers who are friendly to their position.

"They bring in a group of people they decide to invite — it does not represent the teachers' bargaining unit," she said.

Advocates for the new legislation say the bill would not give teachers ultimate authority over curriculum or textbook decisions since their choices would still be negotiated with the school administration during the collective bargaining process. But the change would give equal authority to the two sides and move the process out of public view to a closed-door session.

Goldberg said the changes are needed because there are too many tests and other instructions imposed onto school systems. She said this bill would bring some control back to the people in the classroom.

"If the top-down approach — whether it is the state Board of Education or downtown in a district office somewhere — was going to work, it would have worked by now," Assemblywoman Jackie Goldberg said. "I don't know if bringing in teachers as partners will work. But I know if we don't bring them in, we don't get the buy into the system that we need."

"We have bright, young talented people who are willing to accept less money than if they did other things," she added. "But they are not willing to be treated like tall children."

Plotkin believes that elected school boards and superintendents should make such key decisions because they are held responsible for the achievements of students. "We are accountable to the voters," he said. "It is designed to reflect the community interest, goals and objectives."

But teachers counter that they are the ones who know what works in the classroom.

"Imagine if you were building a house, and you gave the contractor the specs and standards but said I'm going to select the building material," Knapp said. "Then imagine that you showed up with toothpicks and toothpaste. No contractor would agree to that."

"Yet in our profession, we are given the standards, but as professionals, we are not allowed to use our own tools," he added.

Educators up and down the state cite the relatively new Open Court reading system as the prime example of how rigid teaching methods are dictated to them. It is a phonics-based reading program that describes precisely what should be taught each day.

The program has been put into place in many school systems, especially in low-performing schools. Both sides agree that newer teachers find the step-by-step process helpful. But experienced teachers resent the cookie-cutter approach.

"If you are a beginning teacher and you don't know what you are doing and Open Court works for you, God bless you," Goldberg said. "But there are a fairly large percentage of teachers who have the same qualifications as a community college professor. Telling them which book to use, how many minutes a day to spend on each subject, does not work."

There are examples of agreements that have been worked into current collective bargaining agreements that the CTA points to as success stories. In suburban Sacramento's San Juan Unified School District, teachers and administrators agreed to create a task force to examine the district's special education program. The agreement states that there will be three teachers and three administrators on the committee.

Dave Gordon, head of the Elk Grove school district, adds that there are other ways to give teachers a voice rather than collective bargaining.

"The biggest danger I think, is that in bad financial years, we may be pressured to make decisions on curriculum and testing that may not be wise," he said.

But Goldberg said the bill does not pit textbooks against wages. The idea is to set up a process, she said.

"They might try to bargain for the idea that there would not be just one choice, but two or three," she said. "No one is saying that the school board shouldn't make the ultimate choice as to the textbooks that are used."

But Gordon said, "For my money, [this bill] is trying to solve a problem that is not a problem in most places."

"I think this is where the bill is being mis-portrayed," he added. "They are saying that collective bargaining is the only way to involve teachers, but I don't think that is true. Most districts value their teachers and consult with them."

Lynda Gledhill is a reporter with the San Francisco Chronicle's *capitol bureau. Comments on this article may be sent to* **edit@statenet.com**

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Thoughts from a teenager on the testing front line

By Molly Gaebler

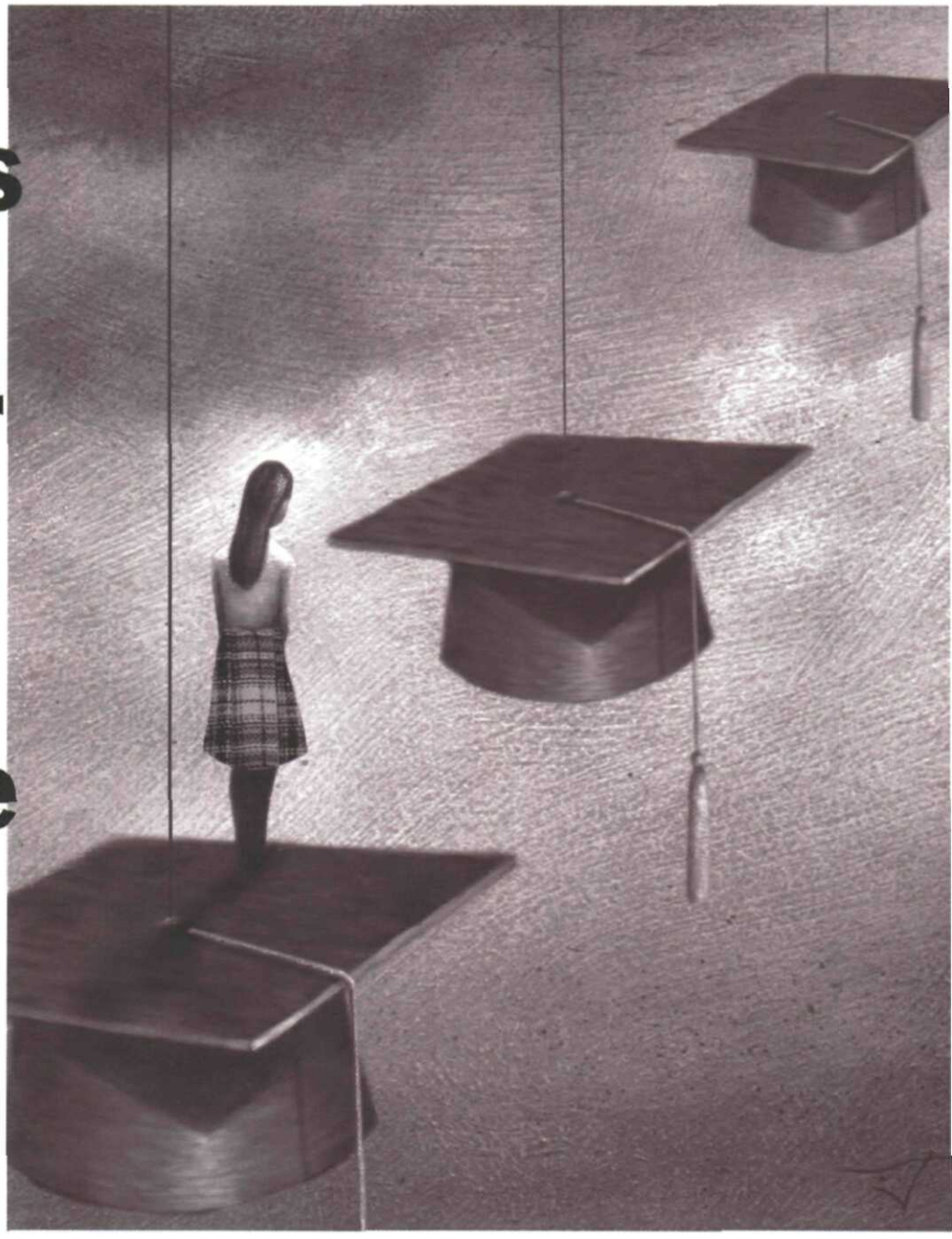

Illustration by Jon Krause

Editors Note: The class of 2004, which includes Berkeley High School's Molly Gaebler, is the first in California to face the mandatory exit exam that Governor Gray Davis ordered students to pass before they can graduate. Last year, when the first test was given to 370,000 freshman, just more than a third passed. School Superintendent Delain Eastin blamed the poor results on a test that was "the toughest of its kind in the nation." But this view from the classroom by a public school student suggests a wide learning gap in California.

I was not concerned in the slightest before I took the high school exit exam last year, when I was a freshman. Graduation requirements had not even entered my head by then. But it did seem silly for me to be taking the test I must pass in order to graduate when I was only in the 9th grade. The only thing I was afraid of was that there would be something like a deep, dark science technique on the test that I wouldn't learn until I was a senior. But it wasn't a worry that bothered me much.

In the week before the test, many of my teachers at Berkeley High School, who had grumbled under their breath when they first heard about the exit exam, told us not to stress about it. I think they were more concerned about the class time we were going to miss than how well we would actually do on the test. But they did explain why

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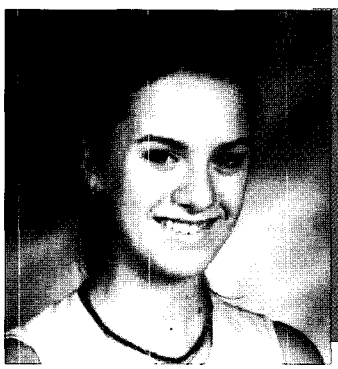
we were taking it as freshmen. They said it was so we would have four chances to pass. If we failed as freshmen, sophomores and juniors, but passed in our senior year, we would still be able to graduate from high school. That sent chills down the spine of some in the class. How difficult would this test be if we had to be given four chances to pass it? Others like myself, scoffed. If we didn't pass, so what? We could take it again next year. Our teacher, sensing some apprehension, told us again not to worry.



Molly Gaebler, sophomore at Berkeley High School

Most of my peers agreed that this test did not even measure the minimum skills that a high school graduate should have.

But she also said to get a lot of sleep and eat a good breakfast before we took it. The class began to lightly chat. Some students, whose doubts had been renewed, were stressing out.

There were still no worries in my mind. Nevertheless, I took the advice of my teacher. The night before the test, I got a solid 10 hours of sleep and I ate a hearty breakfast. The thought of studying had not even crossed my mind. My teachers had given me a completely stress-free attitude about the test.

I hustled to get to school on time (I have issues with being punctual), and arrived with just enough time to find the classroom that had been assigned to the section of the alphabet in which my last name falls. I walked in and found about 25 other students waiting to take the test. After we heard the instructions, we were allowed to open our tests and were told how much time we had.

I stared down at the math section in front of me. The first question was about algebraic strategies that I had mastered in the 7th grade. The next question was similar. My amazement grew as I proceeded with the test. I found that most of the questions required little to none of the geometry skills I was learning this year. Instead, it dealt with material that I learned in middle school, all the way down to simple addition and division. I breezed through the math part and finished with 40 minutes to spare. I looked up from my desk and noticed that more than half of my class was already finished and those still taking the test all had the same look of amazement on their faces. They all thought it was as simple as I did. "Why we were given three hours to do this part, I'll never know," whispered the girl sitting next to me.

The second (and final) day was the writing section of the test, which was just as easy, if not simpler than the math had been the day before. It took nearly as long to complete as the math section and consisted mostly of simple, spelling questions. The test ended with a series of essays, one of which was supposed to be an argumentative essay about a hummingbird. As each person approached the hummingbird question on their test, they gave out a snort of laughter or a giggle. The hummingbird essay became the laughingstock of the English department. My English teacher joked that she would make us write it over again for our final.

I walked out of the exit exam wondering who would ever need to take this test over again. If a senior could not pass a test that many freshmen considered to be about the level of a middle school exam, then they should not be graduating from high school. Most of my peers agreed that this test did not even measure the minimum skills that a high school graduate should have.

Now that I am in my sophomore year, college and graduation seems much closer. But while the exit exam is over and done with in my mind, for many of my classmates it isn't. When the exit exam rolled around again this year, there were approximately 400 students who needed to retake the exam.

When I heard that, I really began to wonder what kind of education we were receiving at Berkeley High. I heard that most of those who did not pass were low-income students, or they did not speak English. The fact is, low-income students, who can't afford tutoring or school supplies, can't do as well as students who have that support. But they aren't going to get anywhere if no one helps them. Same with students who are non-English speaking. I'm sure most of the students who can't speak English are very intelligent people. But if they don't pass this test because of their language barrier, they won't graduate. Instead of failing them, though, these students should be receiving extra help and support.

How good is our school system if we have students who cannot pass this test? There must be an improvement that needs to be made somewhere — be it in teaching, or resources, or whatever, if there are students that are failing this exit exam. Because even someone who passes the exit exam is, in no way, prepared for life after high school.

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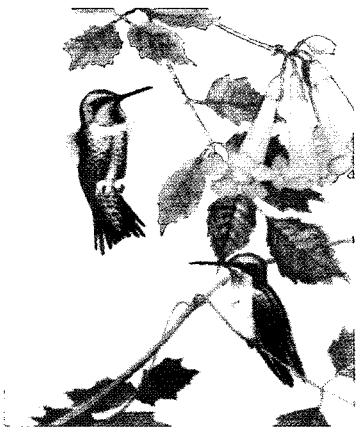
The Hummingbird question

The California High School Exit Examination is divided into two parts — math and language. Last year, only 34% of the ninth graders who took the test in its first year passed both sections. But the scores in the two areas differed significantly. More than two-thirds passed the language section but only 44% passed the math. Here, you be the judge. Below is the Hummingbird question, one of two essay assignments in the exam.



A flicker of color off to the side catches my eye as I walk along the back fence. It is a warm May morning, and I am outside early to see how the lettuce I've planted is doing. The wire mesh fence that edges my backyard is draped in blue and white morning glories just starting to open in the morning sun. The flicker of color off to my left becomes more pronounced, and I turn, expecting to see a butterfly hovering over the flowers. Instead, a tiny green bird with a red throat is hanging upside down above one of the morning glory blossoms. It is bigger than the butterfly and has a long bill protruding from its tiny head. The bird I have sighted above the morning glories is a male ruby-throated hummingbird, the most common species in the eastern United States.

The hummingbird is found only in the Western Hemisphere and belongs to the *Trochiliade* family, which contains more than 300 species of "hummers" as they are known among enthusiasts. Sporting an emerald green back with gray flanks and an iridescent ruby-red throat, this bird is also called *Joyas Voladoras* or "flying jewels" in Spanish because of its brilliant colors.

With an average length of 3.5 inches and weighing only one eighth of an ounce, this hummingbird is incredibly quick, flying at speeds of up to 30 miles per hour. Hummingbird's brains make up almost 2.5 percent of their overall weight, making them proportionately the largest-brained in the bird kingdom, yet the flying muscles comprise some 30 percent of the bird's tiny weight. With these flying muscles, hummingbirds have the fastest wing rate of any bird, which helps them on their migratory paths that can cover up to 2,000 miles between Canada and Panama.

Hummingbirds use their speed to be aggressive feeders and become very territorial. They will fiercely fight one another for sources of food, diving and colliding in midair, and using their bills and claws as weapons. The tremendous speeds at which hummingbirds fly require that they feed constantly. One bird may visit a thousand flowers a day in search of food, munching on gnats, spiders, and sapsuckers, feeding every 10 minutes, and eating almost two thirds of its body weight every day. Like butterflies, they also feed on the pollen and nectar of flowers, sucking out this drink through a long tube-like tongue that absorbs the liquid through capillary action.

The most remarkable aspect of the hummingbirds' wing function is that the wings can rotate fully, making them the only birds that can fly forward, backward, up, down, sideways, or simply hover in space. This ability makes the tiny birds seem like magical creatures. They can hang poised over a blossom, or they can appear to stand still in midair. When hovering in this apparent stationary position, they are actually moving their wings in a figure eight pattern, and from this position can move in any direction.

On this particular morning, I continue my stroll along the perimeter of the fence. I see two more hummingbirds: one a female who lacks the ruby iridescence at its throat, but who sports a white breast; the other, a male with the ruby gorget. Since it is spring, I wonder if the female is nesting or if her two eggs have hatched. I hope that each season brings more of the tiny, brilliant birds to my backyard, where I can enjoy their aerodynamic antics and their brilliant flashes of color.

In this essay about hummingbirds, the author describes many of the bird's characteristics. In each paragraph, she supports the purpose of her essay.

Write an essay in which you discuss the author's purpose for writing this essay on hummingbirds. What details and examples does she use to support the purpose of her essay?

Your response will be scored in two ways. One score will be given for how well you understand the selection and for the completeness of your response. A second score will be given for the overall quality of your writing.

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The education of Reed

Reed Hastings was new to politics when he sought advice from a Republican consultant in 1998 about how to get then-Governor Pete Wilson to sign one of the most sweeping education reforms in years.

Dan Schnur, the consultant, was blunt. Working through the Legislature was hopeless. Like Hastings, who made a fortune in high tech, many others had tried and failed to convince lawmakers about the need to increase

Just five years after he cashed out of his high-tech company with a fortune, Reed Hastings has mastered politics and education policy so well that he is now one of the most influential forces shaping California public schools.

By Kathleen Les

charter schools in California. The only possible way, he was told, was to round up enough signatures for a ballot initiative that could be used as a club to focus the Legislature's attention on *his* issue.

Schnur never thought this political neophyte would collect the 1.2 million signatures required for qualifying the measure. There are plenty of newcomers with good ideas in Sacramento. There are very few with the skill, resources and dedication to follow through a difficult and cynical process.

Hastings did.

After he assembled a well-heeled coalition of business contributors and gained the signatures, he forced legislative leaders to pass a compromise bill that was signed by Wilson, expanding the number of charter schools statewide from 100 to 400.

"If I had known he was going to be this good at political involvement, I'm not sure I would have given him so much advice," Schnur says jokingly.

Today, Hastings is still changing education. He is

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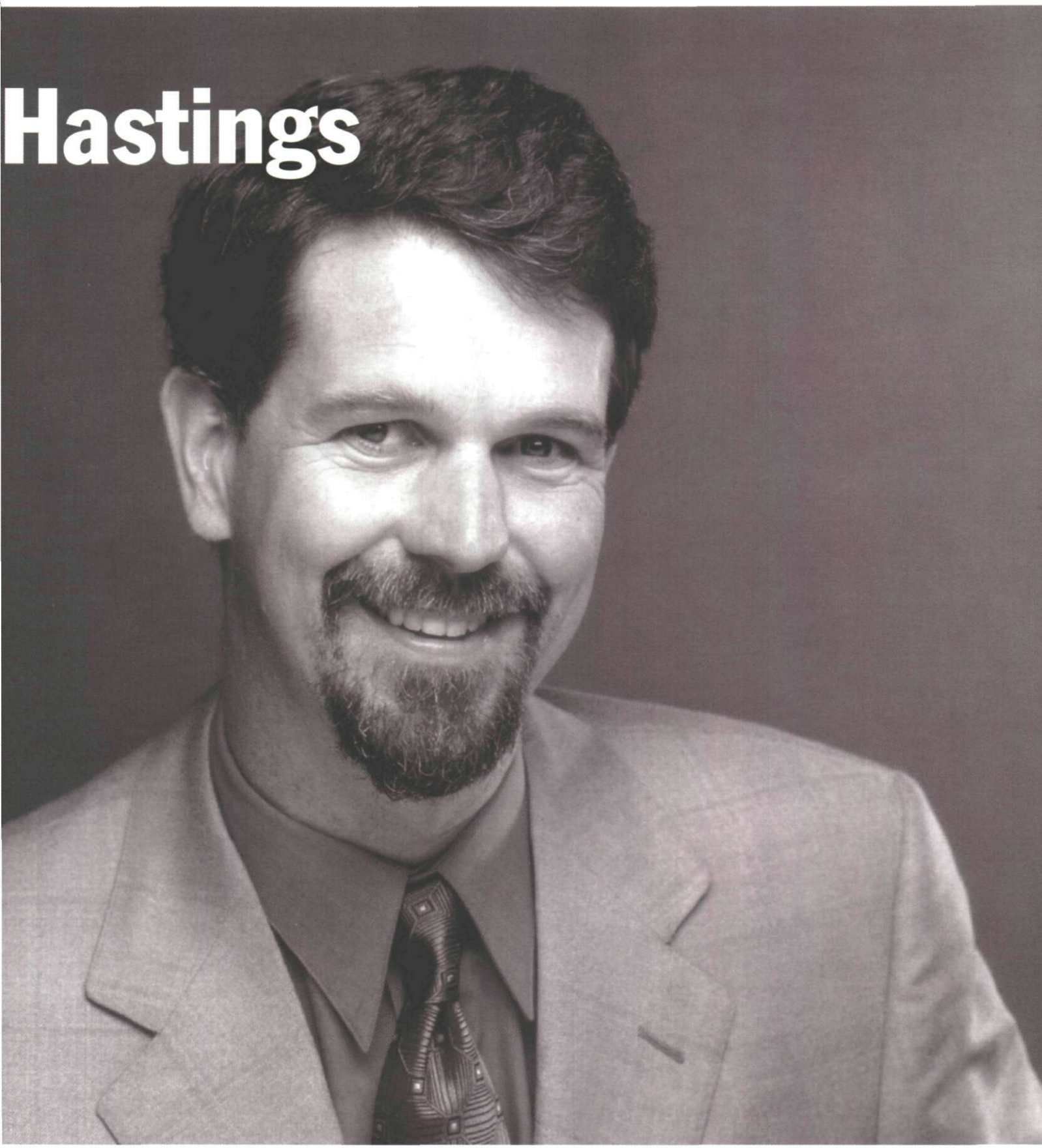

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president of the California Board of Education, where he helps set policy for a public school system with more than 6 million students and 9,000 schools. And he remains an education entrepreneur, founding a network of charter schools and sponsoring two more ballot initiatives on education — one successful and one not.

"Reed has a very professional touch," said John Mockler, former executive director of the state school board. "He has no inherent bias except quality."

Hastings, 41, is also an example of the growing participation in California politics of wealthy business tycoons who decide to use their fortunes for public service. He made his fortune pioneering a unique kind of software that can detect errors in other computer programs. The company he founded, Pure Soft, grew to one of the world's largest high tech companies before he sold it in 1997 for $750 million.

He was just 36.

Hastings during his Peace Corps days in Swaziland in the mid-1980s.

A teacher at heart

Sitting across the table from Hastings you notice the frayed yellow polo shirt and floppy nylon jacket even as words tumble from his mouth so fast they seem to crowd their way out. He looks more like the energetic high school math teacher he once was than the high-tech tycoon and state school board president he is today.

Hastings grew up in Boston, Massachusetts. His father was a corporate lawyer and his mother worked in the criminal justice system. He says he never particularly stood out in school while growing up and he postponed going to college so he could earn money selling vacuum cleaners door to door. When he eventually graduated from Bowdoin College with a math degree in 1983, he decided a stint with the Peace Corps would buy him some time to sort out his ambitions.

After he eventually returned to the U.S., he earned a master's degree in computer science at Stanford University. But he was drawn to schools ever since his Peace Corps service, where he spent three years teaching math to high school students in Swaziland.

Hastings first sought help on how to make his stamp in the education field by contacting Mike Kirst, a Stanford University professor who heads up a prestigious education think tank, shortly after he sold his company.

Kirst kindly pointed out that Hastings wasn't the first millionaire to walk in his office and offer to fix education. If he really wanted to make a difference, he was told to spend some time seriously learning about education — its history, pedagogy and the players over the last few decades. So for nearly a year, Hastings sat in on classes at his former alma mater, getting up to speed on the various education reforms attempted over the decades. It was while sitting in the hallowed halls of Stanford that Hastings had his big awakening.

"Suddenly it dawned on me that [education reform] was not an intellectual problem," he said. ``This was, lo and behold, a political thing."

So Hastings decided to make his first foray into politics with charter schools, an idea in which designated campuses are exempt from many statewide regulations and allowed to use a variety of creative ways to achieve education goals.

"[Charter schools] appealed from a business perspective; this idea that you go off and create a nonprofit," said Hastings. "They're entrepreneurial."

Hastings, a Democrat, felt more strongly about charter schools than he did about partisan politics. So when the Republican candidate for governor in 1998, Dan Lungren, endorsed his charter school plan, Hastings gave a $20,000 contribution to the GOP campaign.

Today, his success in the political world is demonstrated by the fact that Davis beat Lungren in the 1998 campaign and he still appointed Hastings to the school board in 2000.

That same year, the California Teachers Association asked him for help with a ballot measure that would make it easier to pass local school bonds. Hastings agreed on the condition that money to build facilities for charter schools also be included.

The issue narrowly lost on the March 2000 ballot, but Hastings immediately turned around and helped place a nearly identical measure on the November ballot. It finally passed, allowing school districts to win voter approval for construction bonds with a 55 percent majority instead of the previous requirement of two-thirds.

For Hastings, who gave $1 million to each of the two ballot measures, this victory was even more significant than his charter schools success. "We wanted the business community to recognize that the education community needs a lot of funding," he said.

But it was also fatiguing and expensive. In the end, Hastings concluded, "Initiatives are a crazy way to do

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politics. If you're willing to be patient, it's much better to work with the Legislature."

Staying the course

Hastings has plenty of opportunity these days to be near the Capitol. His appointment to the State Board of Education put him square in the middle of carrying out the governor's school improvement plans. If Hastings came to the podium as an outsider, it's in this circumscribed world of education jargon and regulatory minutia that he has made himself at home. A self-proclaimed policy wonk with no intention of running for office, Hastings is praised over and over as a quick study and a good listener.

Hastings with one of his Swaziland students.

A big proponent of measuring education improvement, he has developed a niche on the board for perfecting the assessment tools used to test students and gauge school and district performance. He's credited with crafting new mathematical indicators for the Academic Performance Index (API) to allow for a consistent year-to-year read on the API after the state converts from the Sat-9 to the new standards-based exams. He's been known to take home samples of the old and new student tests to mathematically evaluate how to correlate their scores and return with comments that education officials appreciate.

Last year, Hastings again charted new territory when he helped spearhead and underwrite EdVoice, a lobbying arm for education reform. He sees the new group as the Sierra Club for education — something he calls the missing piece in the larger education reform picture. The organization financially backs candidates and advocates on statewide education issues.

Headed up by former Assemblyman Ted Lempert, author of Hastings' original charter schools bill, the novel aim of the group is to build a statewide e-mail network of Californians of all stripes interested in educational change.

According to Lempert, the group's network is expanding every month. But not everyone is convinced the group is anything but a shill for its original backers. "I've told Reed I'll deal with you and the other guys, but I'm not dealing with EdVoice," said John Hein, longtime lobbyist with CTA. Hein is one of many with acclamation for Hastings' keen understanding of educational policy, but he says EdVoice is where he parts ways with the business-man-turned-education expert. "The group is really just Reed and four rich white guys — Eli Broad, John Walton, Don Fisher and John Doerr," said Hein.

Education Entrepreneurs

Reed Hastings isn't the only millionaire to tap his own fortune for school improvement causes. There's others who also have been high-stakes financial players in the movement to notch up student performance.

• **Eli Broad:** Prominent California real estate developer, now chairman of SunAmerica, Inc. established the Broad Foundation in 1999 with $100 million — recently bumped up to $400 million — to improve inner city schools nationwide. Last year he created the Education Ventures for Los Angeles, a charity for LA schools.

• **John Doerr:** Former Intel executive cum venture capitalist with Kleiner Perkins Caufield & Byers spear-headed a number of groups to help grow a more educated work force. Among others, they include, the Technology Network and the New Schools Venture Fund (granting making for school improvement projects). He also contributed more than $5 million to Propositions 26 and 39 to help schools pass construction bonds.

•**Tim Draper:** High-tech venture capitalist spent $20 million of his own money in 2000 on Proposition 38, a losing school voucher initiative.

• **Don Fisher:** Founder and chairman of Gap Inc. figures prominently in foundation circles giving to school improvement; also a state school board member appointed by Governor Davis.

• **Steve Poizner:** President of SnapTrack, Inc. whose Poizner Family Foundation develops programs for inner city schools. Also involved with Aspire Public Schools (charter schools) and the New School Venture Fund.

• **Arnold Schwarzenegger:** Hollywood actor fronting $1 million to circulate petitions for a ballot measure to require state spending to the tune of $400 million annually on after-school programs, principally in low-income neighborhoods.

• **Larry Stupski:** Former vice-chairman of Charles Schwab Corporation whose Mill Valley-based Stupski Family Foundation last year gave $1.6 million to help reduce the racial achievement gap in West Contra Costa County.

• **Ron Unz:** High-tech entrepreneur who spent more than $600,000 of his personal fortune to pass Propositon 227, the 1998 initiative to require English immersion for non-English speaking students.

• **John Walton:** A director of Wal-Mart Stores, Inc. heads up the Walton Family Foundation, focusing on scholarships and public school improvement. Also, chairs School Futures Research, a charter school operator in San Diego.

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Hastings with then-Assemblyman Ted Lempert (left) and former Governor Pete Wilson at the signing of the charter schools legislation.

Lempert is not surprised at CTA's reaction. As its first legislative effort, EdVoice got a bill passed to make it easier for some to enter the teaching profession without pursuing the normal credential route. "There could be some splintering" between EdVoice and other education coalition groups over the long term, acknowledged Lempert.

New lessons on the horizon

Even without EdVoice, Hastings has given handsomely to candidates, and on a few occasions created a stir. Last year when he wrote a check for $50,000 to Senator Jack O'Connell's (D-San Luis Obispo) campaign for state Superintendent of Public Instruction, he took flak for making a contribution so soon after O'Connell introduced a Hastings-backed bill to limit home schooling within charter schools.

At the time, Hastings was still on the management team of Aspire Public Schools, a network of six Northern California charter schools he helped establish and fund in 1998. Though he had no financial involvement in the charter network beyond his initial contribution, he stepped down from his role with the organization in the face of accusations that the nonprofit would benefit financially by the bill.

Hastings has since written another $200,000 check to O'Connell, who faces a runoff in November for the state school superintendent's job. The latest Hastings check raised eyebrows once again about the political distance expected between the elected state schools' chief and appointed school board president.

Hastings also stirred controversy with a recent financial contribution when he gave money to a Massachusetts campaign that is trying to pass a measure similar to California's Proposition 227, which revamped bilingual education in 1998. The California measure was sponsored by Ron Unz, who recently appeared before the state school board over a dispute about California's implementation of Proposition 227. Hastings was asked to abstain from decisions about the measure because of his donation, but he refused, insisting there was no conflict of interest.

Looking to the future, Hastings says he envisions the day when all students have the kind of education his own two young children receive at private school: two full-time teachers and an aide in a class of 18 students.

Right now the almost $7,000 a year that California currently spends per student is far short of the more than $10,000 to $15,000 Hastings thinks it will take to do the job right.

So far, indications are Hastings will continue to rise to the occasion, guiding California through more developments in the schooling of its children. With one foot still in the business world — these days Hastings runs yet another successful high-tech startup called NetFlix — and one foot just as squarely in education politics and bureaucracy, few doubt he's anything but a teacher at heart.

Kathleen Les is managing editor with California Journal. *Comments on this article may be sent to* **edit@statenet.com.**

Reed Hastings

41 — **Santa Cruz, California**

Boston, Massachusetts — **wife and two children**

Bowdoin College, B.S., 1983
Stanford University, MCS, 1988

Peace Corps volunteer, Swaziland, 1983-86
Pure Software, 1991-97
CEO, Technology Network, 1998
CEO, NetFlix, 1997 to present
State Board of Education, 2000 to present

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Housing, poverty and Hollywood

This is a story that is so SoCal:

Once upon a time, in another century, plans were laid for a new "old-fashioned village" on the eastern edge of Ventura County, nestled in the hills overlooking the San Fernando Valley. Families could escape the Big City of Los Angeles and its traffic, crime and sub-par schools for a bucolic suburb to be developed on 2,800 acres carved from the oak-studded woods and meadows of Ahmanson Ranch.

Ventura County's rulers, the Board of Supervisors, liked what they saw, including the tax revenue they knew would be generated from the project's 3,050 homes (roughly 22% offered as "affordable housing," the rest mostly high-end, luxury homes) and about 400,000 square feet of office and retail space. In 1992, the board gave thumbs up to the Ahmanson Ranch development. But all did not go happily ever after.

There arose a small band of project opponents who lobbed lawsuit after lawsuit at the developers, challenging the project on environmental grounds.

The project remained stalled until 1998, when it finally looked like a "go" for Ahmanson Ranch. Then, in 1999, the San Fernando Valley spineflower, thought to be extinct, and the California red-legged frog, an endangered species, were discovered on ranch land. Opponents quickly demanded an additional environmental impact report.

Thus began yet another skirmish in a long-running political war; it pits the need for housing and job growth to handle the Southland's burgeoning population against the desire to protect the region's shrinking supply of open space.

On one side stands Seattle-based Washington Mutual, California's second-largest bank and the owner of the Ahmanson Ranch since 1998. Washington Mutual retained a slew of lobbyists and consultants, including former Interior Secretary Bruce Babbitt, to move the project forward.

On the other side is a coalition of activists — largely Anglo, many exceptionally well-heeled and living in sprawling coastal and mountain estates, and their political allies.

The Ahmanson war heated up just as the 2000 election season began. With opponents re-energized, Los Angeles County elected officials entered the fray. They expressed anger that their constituents would bear the brunt of increased traffic congestion and smog (because all Ahmanson traffic access is in L.A. County), but the county would have no say in development decisions and would get no financial benefits from the project (because tax revenues would go only to Ventura County).

Nonetheless, it wasn't until politicians and environmentalists joined forces with a cadre of Hollywood celebrities that the opposition campaign snared the kind of public spotlight that could threaten Washington Mutual.

It's basic political science that the more visible an issue is to the public, the more difficult it becomes for private interests to lobby politicians. In real-world terms, campaigns use celebrities because celebrities draw cameras. And there's star power aplenty within shouting distance of Ahmanson Ranch.

Campaigns use celebrities because celebrities draw cameras. And there's star power aplenty within shouting distance of Ahmanson Ranch.

Enter actor/writer/director Rob Reiner. Last year Reiner joined with HBO Original Programming President Chris Albrecht to found "Rally to Save Ahmanson Ranch," and he enlisted another celebrity-politico, President Jed Bartlet (aka Martin Sheen) to record opposition radio ads.

Two "instant" celebrities also joined the opposition, Attorney Ed Masry, now mayor of Thousand Oaks, and his most famous employee, Erin Brockovich, who argues that a new environmental study is needed — this time to check for toxins in the water.

On the sidelines watching this scuffle is the "Other" California; it is younger, poorer, mainly minority and streaming into the Southland's tight housing market, unable to find adequate, affordable places to live. For lower- and middle-class Californians, building new homes can mean not only the ability to upgrade their residence, but also access to the jobs generated by the development.

And so the battle of Ahmanson Ranch rages on. Plans to protect the endangered frogs and flowers have been drawn up and are under review. If the Ventura Board of Supervisors approves, ground could be broken by next year. But don't bet on it.

Ultimately the only way to resolve this conflict may be to go totally Hollywood and have Rob Reiner and Bruce Babbitt duke it out on "Celebrity Boxing."

by Sherry Bebitch Jeffe

Sherry Bebitch Jeffe is a senior scholar at USC's School of Policy, Planning & Development. Comments may be sent to **edit@statenet.com**

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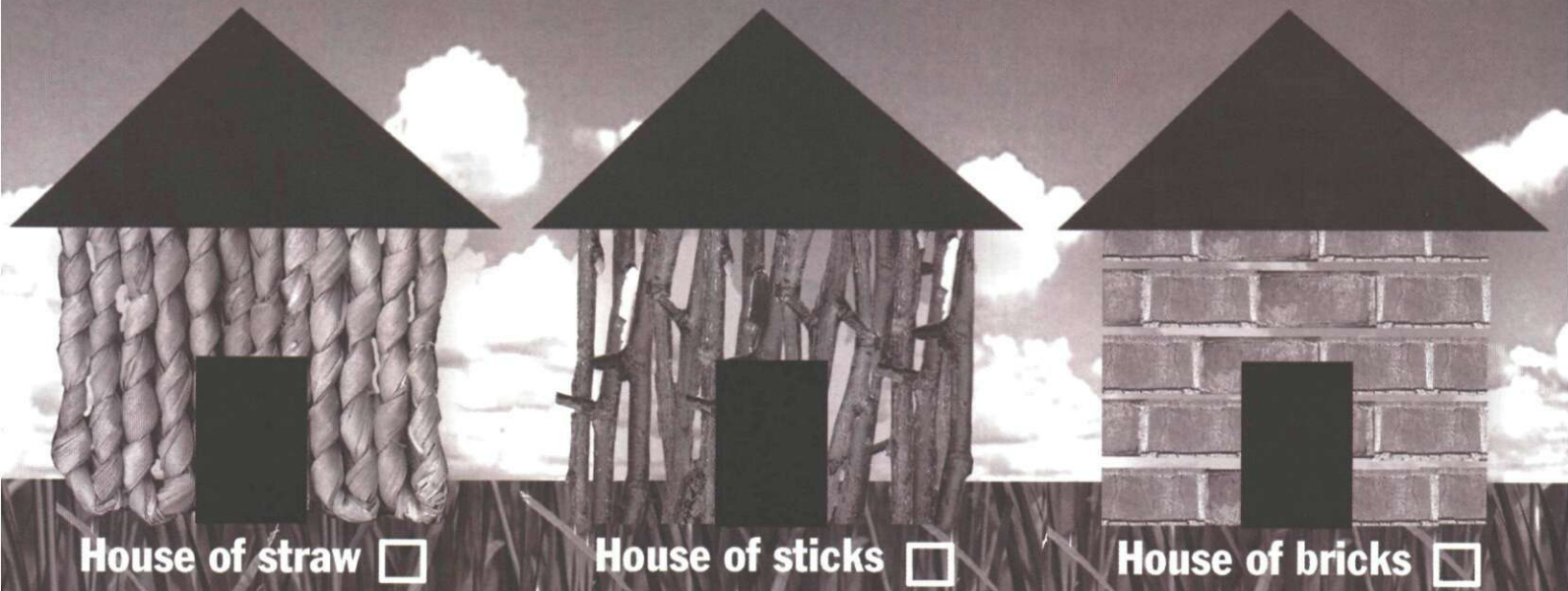
What did California



House of straw ☐

House of sticks ☐

House of bricks ☐

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do with prosperity?

State government spending has doubled since the economy began to soar eight years ago. Now, the good times are gone, but plenty of costly needs remain. Future Californians will be left to judge whether we spent a staggering fortune on straw, stick or brick.

By Cynthia Halleen Craft

Now that Sacramento's budget-slashers have adjusted their eyeshades, focused their magnifying glasses and brandished their blades, it seems bizarre to recall that only two years ago, California stood squarely on the cocksure side of the boom-and-bust cycle.

Think about it: As recently as the 2000-2001 budget year, California was awash in a river of revenue so swift and frothy that it not only whisked away the hard times but left the impression there was no end in sight. Government did what it does best in such times — it amped-up state spending to record levels, at a record rate.

Picture a river doubling in volume in a mere eight years, with half of that increased flow occurring in just the last two years. Now you've got an idea of how quickly state general fund spending rose — it doubled since the 1993-1994 fiscal year. And half of that increase has come just since the 1999-2000 budget years.

What fueled the deluge? Capital-gains and income-tax revenue, growing as improbably as Jack's beanstalk in the giddy, sky's-the-limit dot-com economy of the mid- to late-1990s. Now, of course, the monsoon's over and the drought is upon us, sparking rueful thoughts about where all that money — $40 billion in annual new spending — went.

It's been a quick turnabout to say the least. If Legislative Analyst Elizabeth Hill's prediction of a $17.5 billion state revenue shortfall comes true this year, it will mark the steepest such plunge since World War II. Either way, it's hat-in-hand time again for interest groups seeking their slices of the general fund — from teachers to doctors to small businesses, to big industry.

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Considering how sweet we had it not so long ago, many state budget-watchers are disappointed about what little progress California has made toward solving its long-term problems: improving education, health care, water and energy supplies, road congestion, affordable housing, infrastructure and natural resource protection. In fact, amid all the bleak hand-wringing going on in Sacramento these days rises a very pointed, albeit very difficult, question: Did we squander our prosperity?

"Absolutely," comes the blunt reply from Assemblyman Keith Richman, a Republican from the San Fernando Valley, who is proposing a general fund set-aside for infrastructure expenses. "But it's not just a short-term problem over the last couple of years. We have a tremendous deficit in spending for roads, highways, transportation, school facilities, parks, water projects and open space. I think it's very important that the state make a long-term investment to the infrastructure needs."

State spending during the surplus years is actually a mixed record, with various improvements coupled with missed opportunities. For many — especially children and the poor — the quality of life in California is, in some ways, better. Health insurance among children of working poor families has more than quadrupled in the last four years. Education spending per pupil has leaped 43 percent since 1994 and the budget for the state Environmental Protection Agency has climbed 70 percent since 1998.

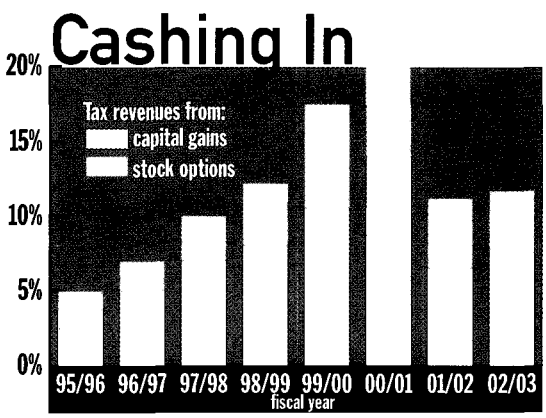
But the size of the problems remaining is evidence of the neglect California suffered in previous years and the gargantuan task facing a state with the rapid growth and changes that are forecast here.

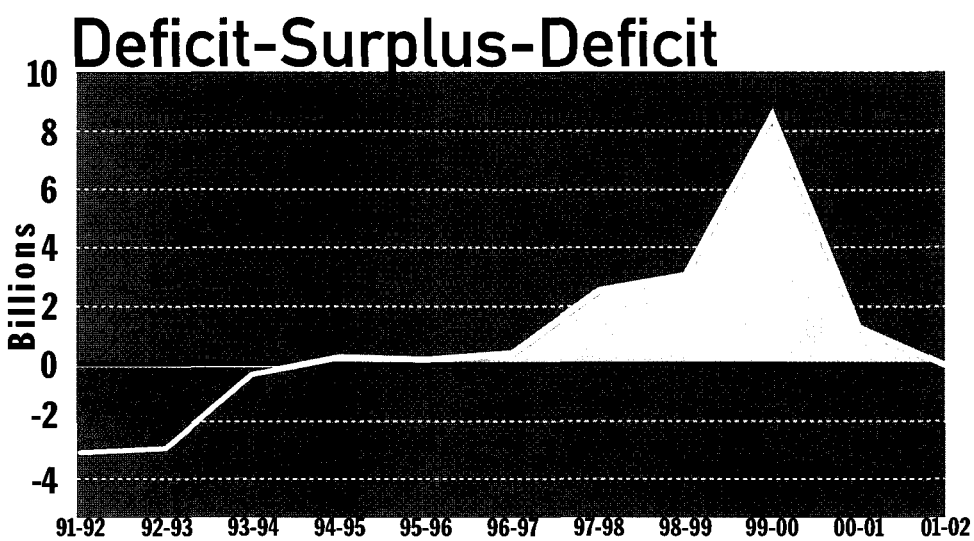
Despite the increase in education spending, California is still struggling to reach the U.S. average. It also remains last in the nation when it comes to the amount spent on each Medi-Cal patient. And the bill for badly needed infrastructure construction work remains at $81 billion in coming years, virtually unchanged since the surplus budgets began.

"The problem is that there were so many lean years in the early 1990s that part of the money went to playing catch-up," says Jean Ross, executive director of the nonprofit California

The numbers tell the story...

From deficit to surplus to deficit, the chart below illustrates the volatility of the state budget in the 1990s by showing the general fund's year-end reserve, a calculation of revenues minus expenditures and other factors. The highest spike near the end of the decade reached $8.6 billion and was primarily due to the stock market, particularly the technology-driven NASDAQ index, according to state officials. The bar graph at right shows the growth of taxes on capital gains and stock options, which climbed 700% from 1996 to 2001.





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Budget Project. "The governor was fairly cautious and he did say we needed to spend the money on a one-time basis."

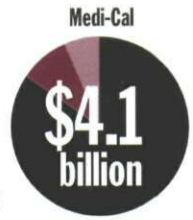
That said, let's take a closer glance at critical budget programs for greater insight about where our elected officials chose to spend California's short-lived prosperity—and where they didn't.

Education

For Governor Pete Wilson, the bloom of economic recovery in the 1993-1994 fiscal year offered a chance to champion new reforms for public education.

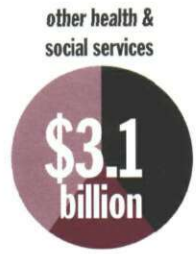
Wilson heeded the call of public education backers and ordered smaller class sizes in one fell swoop. His bold move to limit lower grades to no more than 20 students carried a whopper of an annual price tag: $1.5 billion. With Wilson's decision went a huge portion of the surplus money — so huge, in fact, that to this day analysts differ with parents and teachers over whether the smaller classrooms are worth the cost. Current discussions in the Legislature include talk of loosening the cap to 23 students per classroom, making more money available for other programs.

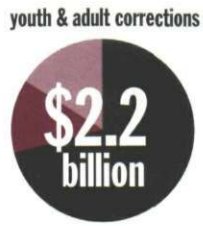
By the time Governor Gray Davis took office in 1998, amid a streak of surplus years, the revenue shower grew substantially. In the 1993-1994 fiscal year, the state spent $14.2 billion from the general fund on K-14 education,

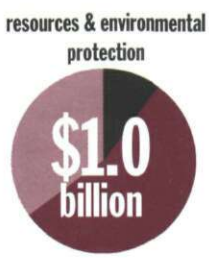


Where did it go?

Almost all of the $40 billion increase in the general fund budget between 1994 and 2001 was divided fairly equally between new programs created by the government and existing programs that grew larger due to caseload or inflation. About 6% of the increase was returned in taxes and about 12% went to local governments or other mandated costs. Use of the money varied greatly by category. Schools, for example, spent most of their share of the money on new programs while most of the Medi-Cal money was spent on inflation and caseload growth.

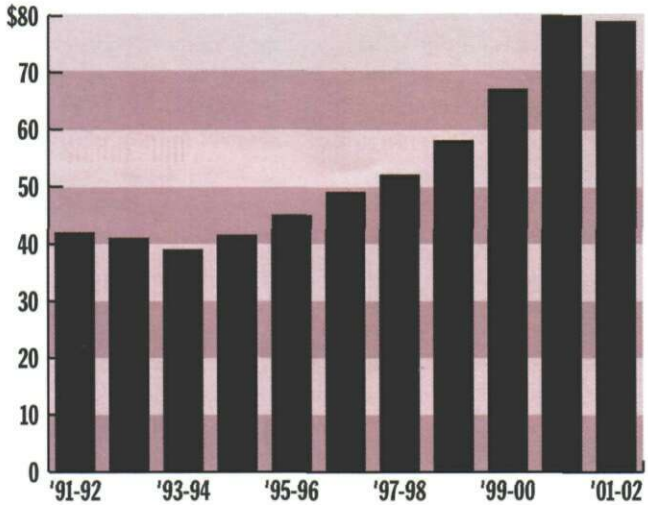


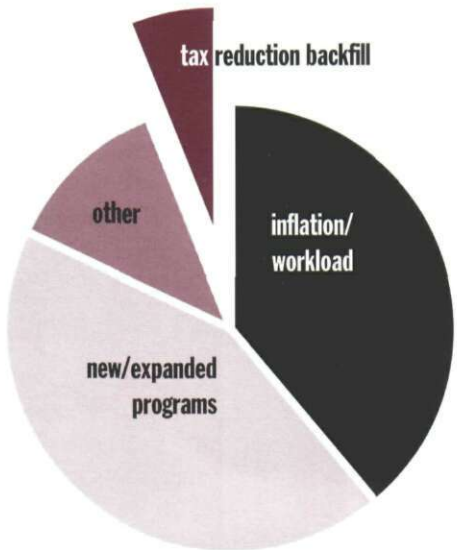




Getting rich

For every dollar state government spent in 1994, it now spends two. This look at state general fund expenditures best illustrates how much money was generated by the 1990s prosperity. The general fund actually doubled between 1994 and 2001, growing from $39 billion to $79 billion. Half of that increase was realized between 1999 and 2001.





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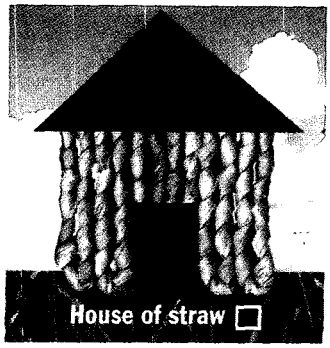

House of straw □

In the 1993-1994 fiscal year, the state sper from the general fund on K-14 educatio that figure grew by $17.2 billion t

and by 2001-2002, that figure grew by $17.2 billion to $31.4 billion. The rosy forecasts allowed the new governor to float a boat full of school reforms. Davis unveiled one narrowly focused program after another, even duplicating some already in place — in the area of teacher training, for instance, where the state ended up paying for 18 separate programs. (Hill is now recommending consolidation.)

The list of education initiatives in Davis' budgets goes on and on. There's the Public Schools Accountability Act ($515 million), the *CTA v. Gold* lawsuit repayment ($350 million), new instructional materials ($250 million), expanding the school year ($224 million), school library materials ($158 million), scholarship investment board ($119 million), teacher recruiting block grant ($119 million), before- and after-school programs ($118 million), and so on.

For five straight years — beginning in 1997 and lasting through 2002 — the governor and the Legislature exceeded the minimum funding for education that voters ordered in Proposition 98, the Legislative Analyst's Office said. Proposition 98 requires school funding to increase from year to year based on a formula determined by enrollment, the economy and other factors.

Plenty of money went into higher education as well. State university fees were cut by 10 percent and held there for seven years despite higher campus operating costs. Chalk up about $200 million to frozen fees. At the same time, the state spent tens of millions updating college computer labs and other equipment, while also boosting faculty salaries.

But perhaps the most dramatic boost in higher education spending was the Legislature's push to spend nearly $1 billion on financial aid for low-income students who attend college. The allocation means the "Cal Grant" program has about twice as much money to distribute to needy college-bound students as it had five years ago.

On the whole, elected officials were putting money where the public seemed to want it, bulking up the K-12 system so much that, by the 2001-02 spending plan, annual general fund allocations for education reached $45 billion. The hikes helped boost per-pupil funding to $7,002, seeming to nudge California up to the national average. And while that may not sound like much to write home about, it compares favorably to the $4,904 California spent per student in 1996-97.

Tossing oodles of dollars at the problem hasn't managed to fix it, though. The California Chamber of Commerce, for one, whose members hope to hire well-prepared graduates, has determined that the public schools are not yet up to par. "Unfortunately," concludes a 2002 chamber report, "many of the state's elementary and middle-grade students have shown little improvement in understanding science concepts, which is one of the primary subjects fueling California's high technology industry. Moreover, high school students continue to perform below basic levels."

Health care

Health, welfare and social services gobble up the next-largest chunk of the state's general fund pie. Thanks to increased state spending on Medi-Cal, California's high number of medically uninsured residents appears to have peaked at 7 million-plus and is coming down. This is due mainly to an expansion in the Healthy Families program, a mostly federally funded effort to provide insurance to children of working poor families. In the 1998-99 budget year, about 130,000 children got health insurance coverage through the program, for a cost to the state of about $245 million. Today, the governor's office reports that an additional 470,000 needy children were enrolled in the past two years, raising the state commitment to $795 million.

Still, California's Medi-Cal program enrollment ranks 30th in the nation, says Christopher Perrone, interim director of the Medi-Cal Policy Institute at the California Healthcare Foundation.

The news here is both good and bad. While the state's recent robust revenue flow allowed the government to pour hundreds of millions more dollars into extending coverage to a larger swath of the population, data show that, conversely, fewer people have access to a doctor. The reasons are myriad, but primarily have to do with the fact that while California's eligibility rules are somewhat generous, our health care system has a number of built-in ways to keep service use down. Perhaps the most obvious is a high reliance on managed care to keep costs and access down.

Dollars-and-cents decisions on general fund allocations also have a big impact here. Doctors complain that the governor and lawmakers choose to pay low reimbursement rates to physicians treating Medi-Cal patients, who amount to one in five Californians. This has the affect of keeping that pool of doctors relatively small. A

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14.2 billion
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survey released in February 2002 by the Medi-Cal Policy Institute revealed that nearly half of California doctors chose not to treat Medi-Cal patients. Thus, the ratio of primary care physicians available to see these patients — who number 6.1 million low-income, elderly and disabled Californians — was 38 per 100,000, well below the recommended standard of 60 to 80 per 100,000.

Davis and the Legislature did use the flush years to hike physician reimbursement rates in 2000 — from 58 percent to 65 percent of what Medicare pays for the same services. But now that the state is back in the red, the governor's budget proposal would trim back those increases. No matter what the budget-cutters do, they can't worsen California's standing. The Golden State ranks dead last, 51st, nationwide in the annual amount spent on health care for each Medi-Cal enrollee — $2,573 compared to the $7,180 that the top state, New York, spends (the national average is $3,822).

Hospitals, too, need better financial backing from the state, says Denise Martin, president of the California Association of Public Hospitals. One fact that seems to escape state budget writers is that 6 percent of the hospitals bear the financial burden of providing 40 percent of the care to the uninsured, Martin says. When those hospitals are not proportionately reimbursed by the state, Martin says, "We have a real crisis in our safety net."

Tax cuts

California's good times not only loosened the grip on spending reins, it also sparked a spurt of generosity on behalf of politicians. Soon enough, the Golden State had a downright outbreak of tax cuts. In the years 1999 and 2000, new and expanded tax cuts sopped up $6.2 billion of the state's nouveau prosperity.

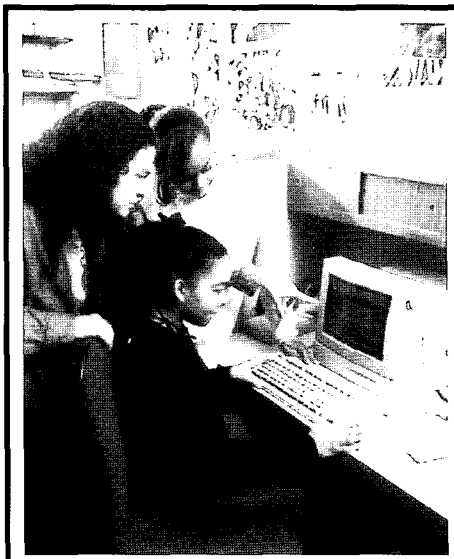
About $200 million in tax relief aided senior citizens and renters in the assistance program. Other breaks totaling about $2.8 billion in 2001-02 include a bank and corporation tax rate reduction, increases in the personal income tax dependent credit, a child care credit, an investment credit for manufacturers and other targeted credits for teachers and businesses.

Most notably, the rising tide of revenue allowed Wilson to adapt a winning political model from other states — that of slashing car taxes, or vehicle license fees. This bid for the heart of California's car culture has given automobile owners dramatic relief, with the cuts growing deeper each year. But because the slashed taxes had actually funded local government, the state had to spend big bucks to cover its generosity and reimburse local coffers for the lost revenue. Hill, the legislative analyst, calculates that the state has spent $3.5 billion so far to shave back the vehicle license fee.

Resources

In Davis' first year of office, the highly publicized plan to purchase Northern California's Headwaters Forest — to the tune of $230 million — actually ended up sucking dollars away from other programs in the state Resources Agency, leading to a decline in resources spending between 1998-99 and 1999-00, according to the California Budget Project.

But better days did come to California's Environmental Protection Agency, where state budget dollars



More than two-thirds of students in California State University's teacher credentialing program started their education in one of California's 108 community colleges.

In California, teacher training begins with us.

California Community Colleges
The Way California Works.

A message from the Community College League of California.

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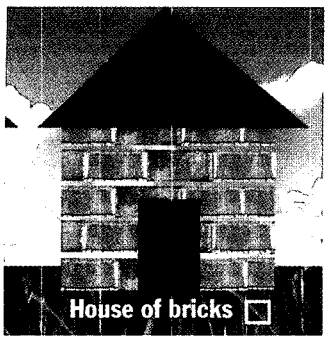
grew by 70 percent between 1998-99 and 2000-01. The agency's boost paid for increased enforcement and monitoring, "brownfield" clean-ups ($85 million) and new clean-air incentives to reduce engine emissions ($140 million). Last year, a big hunk of environmental cash went to a lawsuit settlement when the state agreed to pay $114.5 million for the cleanup of two notorious, long-festering industrial waste dumps, the Stringfellow and Casmalia facilities in Southern California.


House of bricks

On a per-capita basis, California spent $150 annually on infrastructure in the 1960s and 1970s, today it spends less than $20.

The legislative analyst's review of general fund spending growth pegged the areas of resources and environmental protection as benefiting from a significant amount of new and expanded program funding growth from 1993-94 through 2001-02. The increase, however, largely reflects money dedicated to fixing up long-neglected state parks, the CalFED Bay Delta water program, flood control and fire suppression, as well as park entrance fee cuts.

Environmental advocates are split on whether Davis and lawmakers committed enough of California's wealth to protecting its natural resources. But one key member of the Sacramento community sees progress. "I've felt very good about the governor's philosophy on one-time spending in this area," says Gerald Meral, executive director of the Planning and Conservation League.

Housing

In 1998 and 1999, a report by the California Budget Project says, "the most notable policy shifts expressed [in general fund dollars] are increased commitments to housing and transportation." The caveat: "...most of the new funds are one-time or limited in duration."

Housing, at a premium in California's tight and costly market, won a fairly generous slice of the general fund pie when there was plenty to pass around the table. The governor's budget served up $213 million for multi-family housing, $59.6 million for farm-worker housing and $110 million as an incentive for local governments to approve more housing. All of this, Davis estimated, would help provide 5,200 to 7,200 housing units — still a far cry from the 684,000 affordable housing units that the budget project says is needed to deflate the current crisis.

Infrastructure

When it comes to rebuilding California's aging infrastructure, and pondering whether we squandered our prosperity, expect to hear some startlingly frank answers.

"It requires a long-term commitment, and politicians are almost always concerned about being re-elected in the short term," says Assemblyman Richman. "The era speaks for itself."

In the 1960s and 1970s, the state was spending roughly 20 percent of its budget on infrastructure, he notes. Now, it's less than 2 percent. On a per-capita basis, California spent $150 annually on infrastructure back then, today it spends less than $20.

Richman and others want to see the state budgeting process changed so that a dedicated portion of the general fund goes to infrastructure investment. He is far from alone in his zeal for such reform.

"Over the last few years, there's been important progress," said Bill Hauck, head of the California Business Roundtable. "But we need to make better progress."

By any measure, California — even when awash in red ink — deserves a makeover to return to its past glory. Consider: Despite a 50 percent hike in both population and miles driven over the past 20 years, California has increased lane capacity by only 7 percent. Sixty percent of her K-12 school buildings and more than 50 percent of her higher education facilities are three decades old. The Department of Finance pegs the state's overall infrastructure needs from 1997-98 through 2006-07 at about $80.9 billion. Realistically, that figure should be $10 billion higher, the business roundtable has determined.

Conventional wisdom is that, since the visionary 1950s, California has consistently lagged behind — by roughly 25 years, says the Business Roundtable — in planning for the needs of future generations. And if our leaders didn't manage to reverse that trend during eight years at the height of California's prosperity, then when?

Cynthia Halleen Craft is editor-at-large for the California Journal. *Comments on this article may be sent to* **edit@statenet.com**

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Political winds and

Last March, when Governor Gray Davis announced he would postpone his ban on the controversial gasoline additive known as MTBE, it may have seemed his decision was about protecting crisis-weary Californians from paying more at the gas pump.

And last summer, when President George W. Bush announced that refiners must add ethanol to California gas, it may have seemed that decision was about smog-free cities, America's health and the future of the country's children.

There may have been a time when the question of whether to use ethanol or MTBE revolved primarily around which of these federally approved additives made gas burn more cleanly. But these days, calculations surrounding the issue — which, theoretically, is supposed to be about reducing air pollution — also include paying back those who pay for political campaigns. It's about snubbing political foes and staying on the right side of the right people in Washington. And about doing what will please the public in the short term, not necessarily what is best for the environment in the long run.

This is not another fight pitting the environment against polluters. Both sides in this issue are working to clear California's smoggy skies with cleaner gasoline. But choosing the best fuel additive — MTBE, ethanol or some other blend — is as much politics as science.

By Dana Wilkie

In the country's smoggiest regions, Washington requires oil companies to mix gas with products that reduce the pollutants cars put in the air. There are two such products: methyl tertiary butyl — or MTBE — and ethanol, which is made from corn and called "gasohol" when mixed with fuel. Both promote more complete combustion and therefore reduce carbon monoxide emissions.

But some states, including California, are getting rid of MTBE because it is a suspected carcinogen that is showing up in water supplies. That left California one alternative — buying 580 million gallons of ethanol a year and paying the high costs associated with trucking it from Midwest

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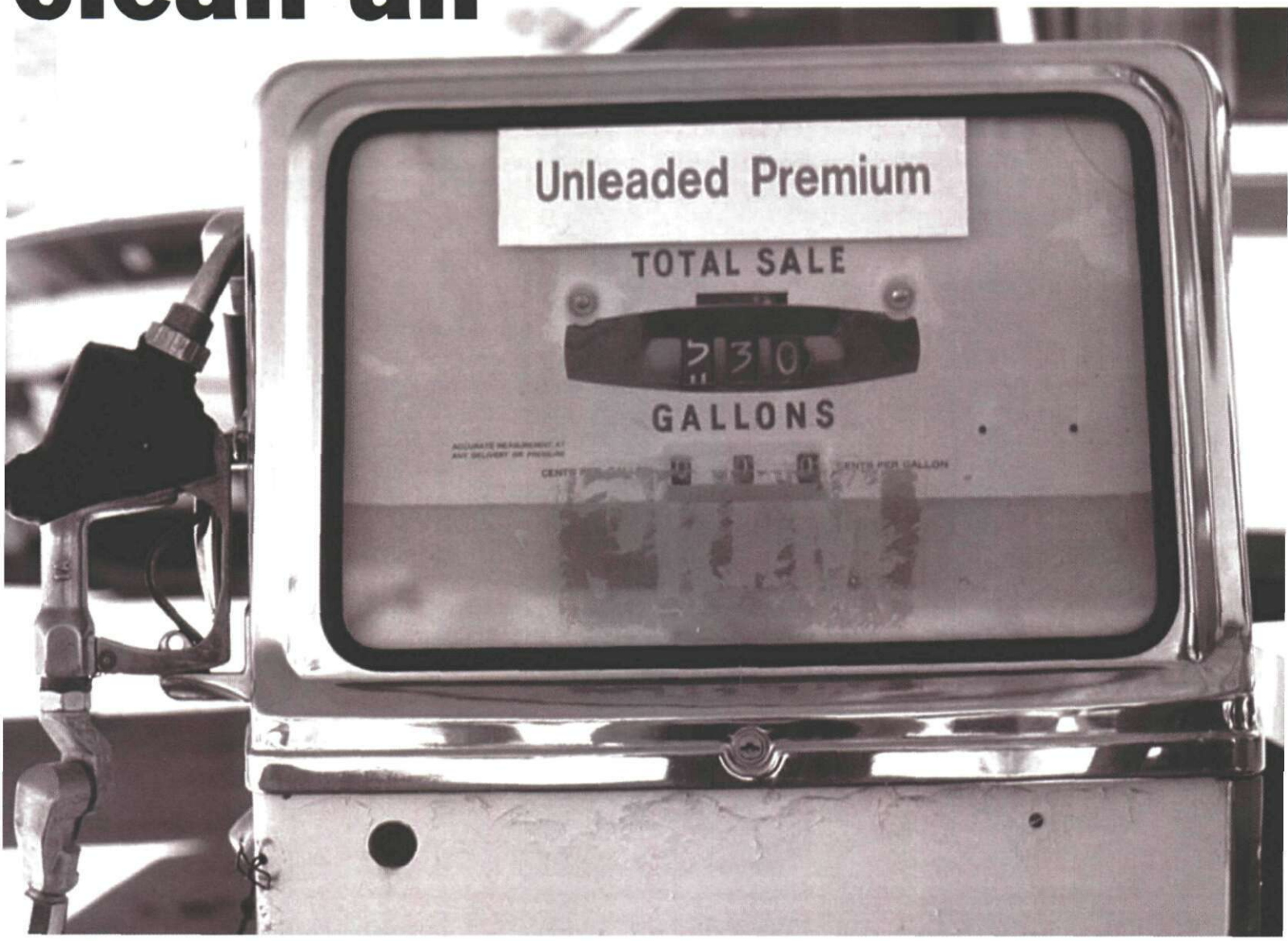
clean air



cornfields. Last year, Davis asked Bush to excuse the state from having to use ethanol because, he argued, refiners had other ways to make clean-burning gasoline and because experts feared that the costs to ship and process ethanol could raise gas prices.

Bush refused, saying ethanol was the best way to clean the air.

And that, according to some, is where public policy considerations drop off and politics takes over. In fact, clean air was only one factor that went into the Bush administration's calculation, and perhaps not even the most significant one.

"Requiring folks to use ethanol is about as old a political ruse as exists in Washington," said Scott Segal, a lobbyist for the Oxygenated Fuels Association, which represents MTBE manufacturers. "It has nothing to do with air quality or energy security and everything to do with appearing to support farmers."

Davis' request forced the new president to choose among three constituencies — Midwest corn farmers who wanted to sell ethanol in California, the petroleum companies that found it cheaper and easier to use MTBE, and Californians who feared higher gas prices if forced to use ethanol.

Segal and others argue that ethanol is a highly volatile additive that is expensive to ship from the Midwest. More-

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over, they point out, because ethanol must be mixed with gas close to where it is sold, states such as California must make costly investments in the necessary mixing apparatus. These expenses, Segal argues, boost prices at the pump.

Farmers and ethanol supporters spent half a million dollars on scientific analyses to support their arguments — primarily that MTBE is potentially harmful in drinking water. But with meetings, phone calls and letters, through connections and the unspoken promise of reciprocity, they also argued that it was wiser to appease Midwest farmers than Texas oil companies, and more prudent to befriend lawmakers who could steer Bush's programs through Congress than California voters who rejected him in the 2000 election. Bush lost Iowa to Democrat Al Gore by fewer than 5,000 votes; the president could not afford to cross voters in a state that holds the earliest contest in the presidential election year.

Ethanol supporters have powerful allies in Congress and in the administration.

Members of the National Corn Growers Association met EPA Administrator Christie Todd Whitman in her private office, though Whitman declined interviews with Chevron representatives and did not return phone calls from Winston Hickox, secretary of the California Environmental Protection Agency. House Speaker Dennis Hastert and Senator Peter Fitzgerald, both Illinois Republicans, accompanied the president aboard Air Force One to make their case for ethanol. Bush could not ignore big time ethanol boosters such as Tom Daschle, the Senate majority leader from South Dakota. Or Dick Durbin, the Illinois Democrat who is part of the leadership team. Or Charles Grassley, the Iowa Republican who chaired the Senate Finance Committee before Democrats seized the Senate.

President Bush and Governor Davis are at odds over how best to make gas more environmentally friendly.

"If you're the president and you want to get a big tax bill through, one person you'd better be doggone sure to have on your side is the chairman of the Senate Finance Committee," said one person familiar with the ethanol negotiations.

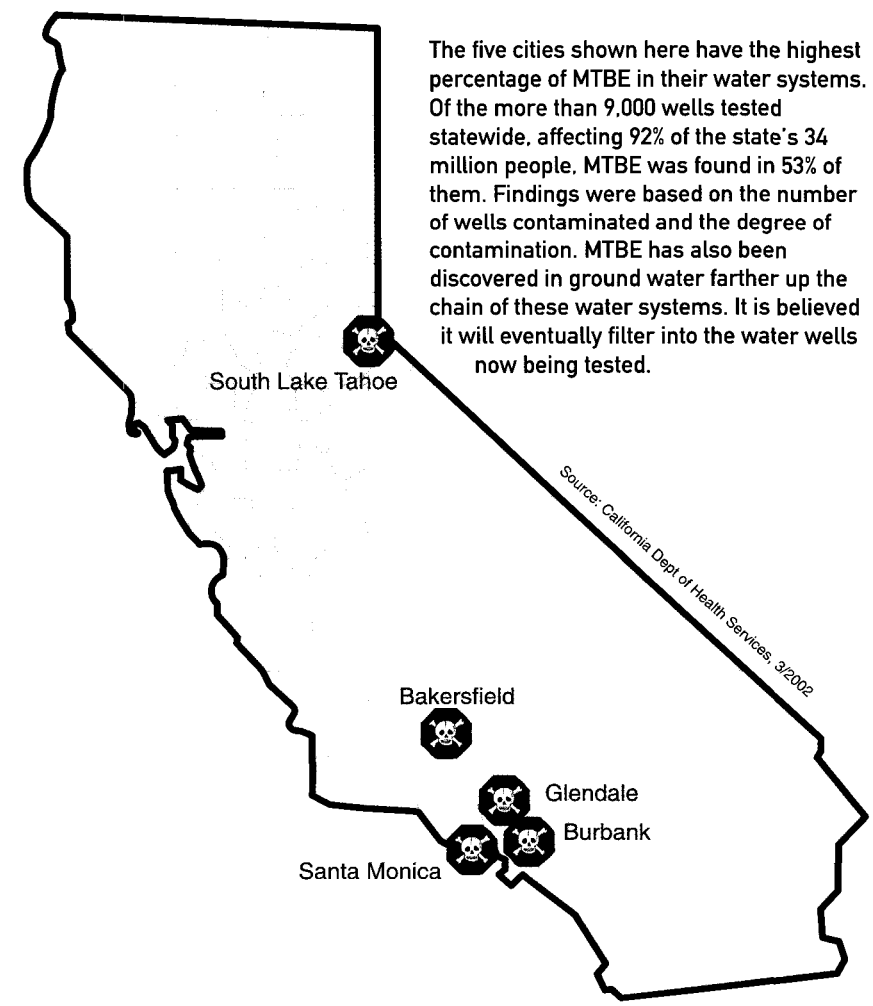
Money may have played a part, too. One of the biggest ethanol producers, Archer Daniels Midland, contributed more than $500,000 to Republicans during the past two years, including $100,000 to Bush's inauguration.

In the end, Bush chose farm states: The U.S. Environmental Protection Agency announced last summer that refiners must add ethanol to much of California's gas.

"It was a blatantly political decision by the Bush administration," said Frank O'Donnell, executive director of the Clean Air Trust. "[Bush] is trying to firm up Iowa for the next election. So he was willing to say to California consumers: Drop dead."

EPA Administrator Whitman argued that Bush was concerned about the risks of MTBE in drinking water in California and in other states. Moreover, she said, California could not demonstrate that it could reduce air

MTBE Hot Spots



The five cities shown here have the highest percentage of MTBE in their water systems. Of the more than 9,000 wells tested statewide, affecting 92% of the state's 34 million people, MTBE was found in 53% of them. Findings were based on the number of wells contaminated and the degree of contamination. MTBE has also been discovered in ground water farther up the chain of these water systems. It is believed it will eventually filter into the water wells now being tested.

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pollution without ethanol.

"Clean air and clean water are equally important," she said. "We do not want to pursue one at the expense of the other."

But others believe California was never a top consideration in Bush's ethanol deliberations, despite repeated pleas from Davis and the state's two senators, Democrats Dianne Feinstein and Barbara Boxer. After neglecting California in his budget and during the state's energy crisis, Bush had already left the impression that because he lost the state in 2000 — and did not expect to win it in 2004 — he felt no obligation to keep California voters or politicians happy.

"He looks at being president of the states he won, not all the states in the country," said Philip Schiliro, chief of staff to U.S. Representative Henry Waxman, the California Democrat who helped write the 1990 Clean Air Act and who fought for the exemption.

Said one Californian involved in the ethanol negotiations: "If you've got to throw the Midwest a bone, whose bone is better to throw to them than one of California's?"

It is no secret that Davis — who may harbor presidential ambitions — was irked at being forced to subsidize corn farmers who might express their gratitude by re-electing Bush. Earlier this year, when two studies indicated that ethanol could send gas prices to $3 a gallon or more, the governor postponed the MTBE ban for at least a year.

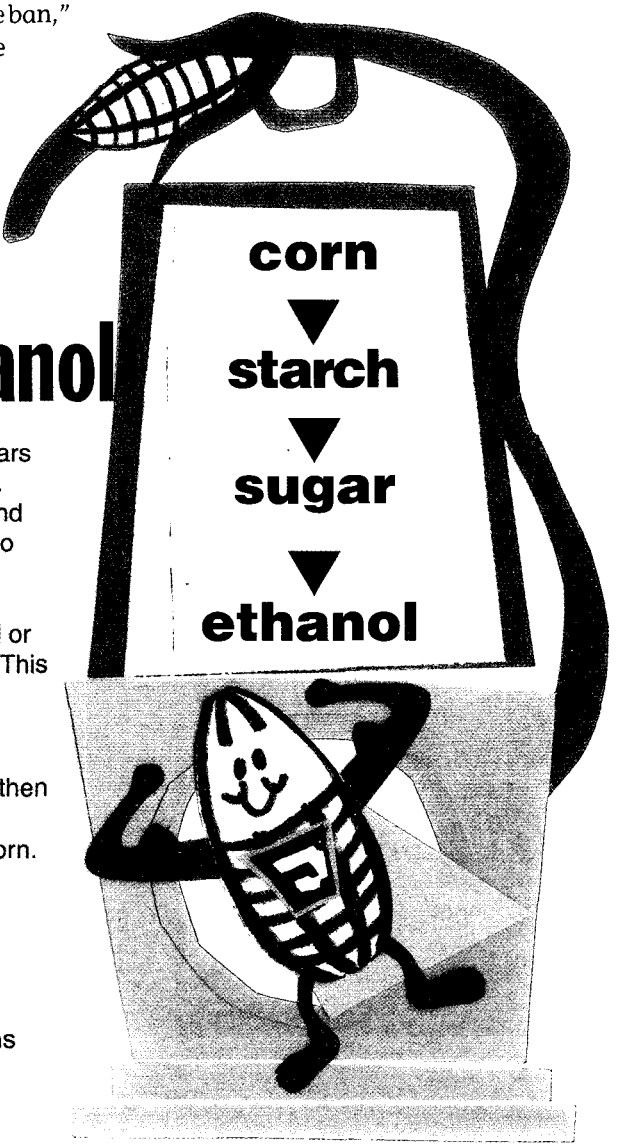
Did Davis choose political expediency over the environment?

Some observers think so. They say Davis wanted to avoid price spikes and supply disruptions so close to the election, especially after the poor marks voters gave him for his handling of California's energy crisis.

"Governor Davis is on record saying MTBE in gasoline is a bad thing, but he's now postponing the ban," said one person close to the decision. "I don't want to automatically assume it was just craven political judgment ... but I think to a large extent, all of their attention was focused on 'how do we deal with this issue politically?' There is a public policy issue here. Why don't they work on that for a while?"

David Chai, a Davis spokesman, insisted the governor's decision was based on sound economic evidence. "Politics had nothing to do with this," Chai said. "The governor's priorities are the interests of Californians, and our ultimate goal is to make sure that we have the cleanest-burning, least expensive gas available to California motorists."

Davis critics don't buy the argument that gas prices would have soared. It is true that ethanol is in short supply on the West Coast, and that shipping it from the Midwest and investing in new ethanol-mixing



How corn becomes ethanol

The basic process involves the conversion of starch to sugars by enzymes and the fermentation of these sugars by yeast. During fermentation, yeast converts the sugar to ethanol and other co-products (listed below). There are two processes to produce ethanol:

Wet milling - used exclusively for corn, the grain is soaked or steeped to separate and recover the oil before processing. This produces 9.5-10 litres of ethanol per bushel of corn.

Dry milling - used for wheat and other grains. The whole kernel is ground, water is added to form a mash, which is then heated with enzymes present to separate the fermentable sugars. This produces 9.8 liters of ethanol per bushel of corn.

co-products

Wet milling
ethanol
carbon dioxide
corn oil
amino acids
corn gluten meal or feed

Dry milling
ethanol
carbon dioxide
dry distillers grains
fibrotein

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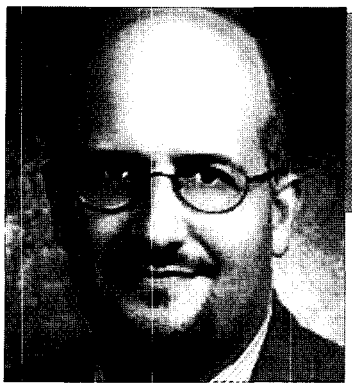


Scott Segal, Oxygenated Fuels Association

"Requiring folks to use ethanol is about as old a political ruse as exists in Washington."
— Scott Segal

equipment would require costs that would likely be passed on to motorists. Still, some suggest price increases would have been temporary until the market adjusted to the new fuel additive.

"If the ban had been imposed as originally scheduled, we think the refiners would have found a way to meet the demand, and any price increase would have been relatively temporary," said Steve Hall, executive director for the Association of California Water Agencies, which wants to ban MTBE. "You can either pay a little more at the pump, or pay a lot more to clean up contaminated groundwater."

"You can either pay a little more at the pump, or pay a lot more to clean up contaminated groundwater."
— Steve Hall

Moreover, there are rice and sugar beet farmers in California ready to jump at the chance to manufacture ethanol. For years, farmers in the Central and Imperial valleys have struggled to find financial backing for an idea still in its infancy.

"The amount of risk capital that's available these days is pretty limited," said Ken Collins, a rice farmer who wants to open an ethanol-making plant in Gridley, an hour's drive north of Sacramento. "I want to move this project along faster because we're trying to find something to do with this rice straw that we can't burn."

Fifty-four California wells and 31 reservoirs have been contaminated with MTBE, according to the California Department of Health Services. Most contamination happens because gasoline, a lightweight liquid, seeps out of gas tanks and because MTBE—attracted to water molecules—quickly finds its way to groundwater. When the groundwater reaches drinking water supplies, MTBE gives the water a turpentine-like smell.

The state figures don't tell the whole story, said Christa Clark, regulatory affairs specialist with the Association of California Water Agencies. The state only reports on wells that have been contaminated, she said, not on wells that have been shut down because contaminated groundwater is heading toward them.

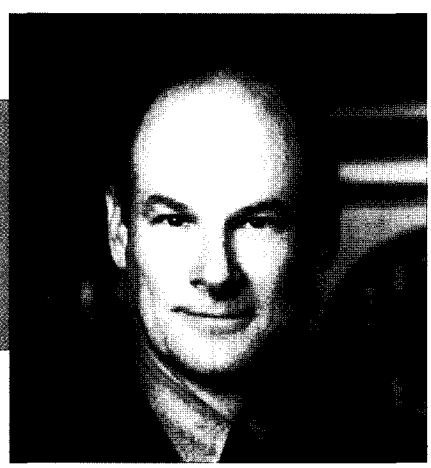
"I would venture to say there are more wells shut down that don't have MTBE in them, then there are wells shut down because they do," Clark said.

But Clark and others agree that the studies linking MTBE to cancer are inconclusive. Mice and rats that were fed MTBE have developed tumors in some studies. And there is some evidence that people who encounter the chemical at gas stations develop asthma.

"There really aren't any good studies out there to show whether it's a carcinogen," acknowledged the water association's Hall.

The Clean Air Trust's O'Donnell noted that when Davis banned MTBE, he may have been responding as much to public panic about MTBE as to its real dangers. "I'm not saying it's good to have it in the water, but I don't think there's been any evidence yet of people dropping dead," O'Donnell said. "Confronted with ... [studies about MTBE] that have not really been proven, and the real-world impact of higher gas prices, [Davis] opted to delay the ban. I suspect if I were in his shoes, I'd do the same thing."

This spring, the Senate may require refiners to triple the amount of ethanol they use in fuel by 2012. The key groups affected by the idea — oil companies, corn farmers and environmentalists — have agreed on most of the plan, which is contained in the Senate energy bill. But Feinstein said she would try to amend the bill to postpone the ethanol mandate for one year.



Steve Hall, Association of California Water Agencies

"This means that from 2012 on, the nation's ethanol producers would have a government-guaranteed annual market that grows as gasoline consumption grows," Feinstein wrote to Senate colleagues. "It is the equivalent of a new gas tax."

Contributing Editor Dana Wilkie is a Washington, D.C. correspondent for Copley Newspapers. Comments on this article may be sent to **edit@statenet.com.**

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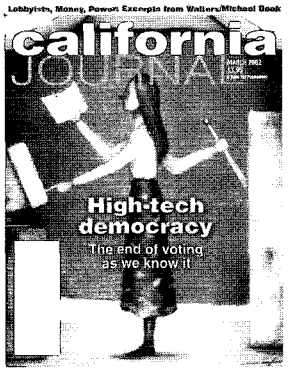

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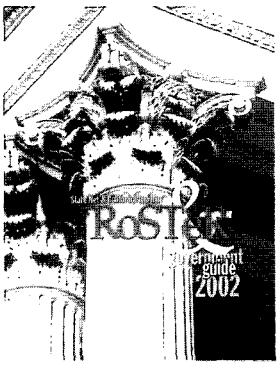

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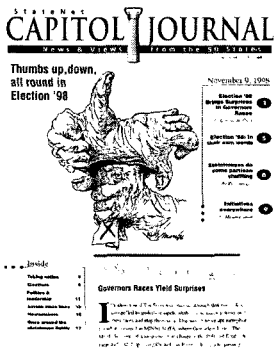

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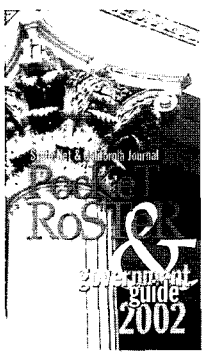

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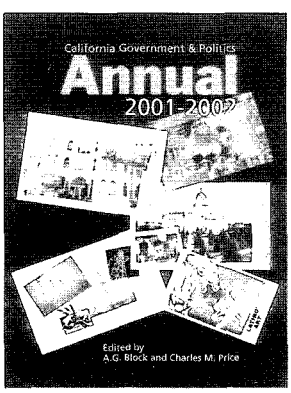

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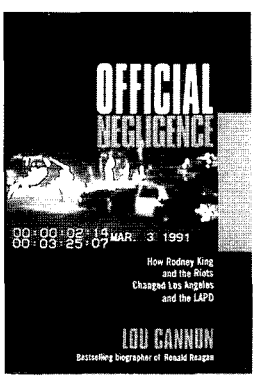

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Energy crisis: Now what?

California is no longer in the throes of rolling blackouts, but that doesn't mean the electricity crisis is over. What lies ahead for a state evermore dependent on energy? Should the state be more involved in the industry or get out of the way? And who is to be held accountable?

By Richard Nemec

The electricity crisis was a distant memory. No rolling blackout or even the threat of one had plagued the state for nearly eight months when the Senate Energy Committee held a hearing on operations at the California Independent Service Operator (Cal-ISO), the state's electricity transmission grid operator. As lawmakers quizzed Cal-ISO chief Terry Winter, he complained that his agency was hampered by requirements from the Federal Energy Regulatory Commission (FERC), which directly regulates Cal-ISO operations.

The remark traveled through the state Capitol courtesy of the legislative squawk box, and one of those who heard it was Senator Steve Peace (D-El Cajon), the lawmaker who put together the state's failed electric industry restructuring. Peace hurried to the hearing — where he was granted permission to cross-examine Winter — and promptly threw one of his legendary fits.

The senator told Winter: (a) He wasn't doing a good job; (b) he was kowtowing too much to FERC and energy giants like the bankrupt Enron Corporation, both of which the senator called "corrupt" and; (c) he needed to stand up for the state's consumers in the face of FERC, generators and anybody else who stands in the way. "Fight the bastards!" exhorted Peace, who abruptly cut off his microphone and stormed out of a silent hearing room.

In one remarkable performance, Peace displayed emotions and attitudes at the heart of the state's 2000-2001 energy crisis: passion, prejudice and a we-versus-them demeanor. Moreover, he signaled the fact that although increased supply, decreased demand and good luck had stabilized wholesale energy markets before last summer, it was not enough to soften those attitudes. His tirade also reinforced the notion that, in terms of politics, the situation remains volatile.

At this moment, industry stakeholders, elected officials and regulators all have slightly different assessments of how the state arrived at its present position and how it should proceed. But they agree that since mid-2000, when retail electricity rates skyrocketed in San Diego, energy and politics have been closely entwined. No one is satisfied with the current circumstances, where the

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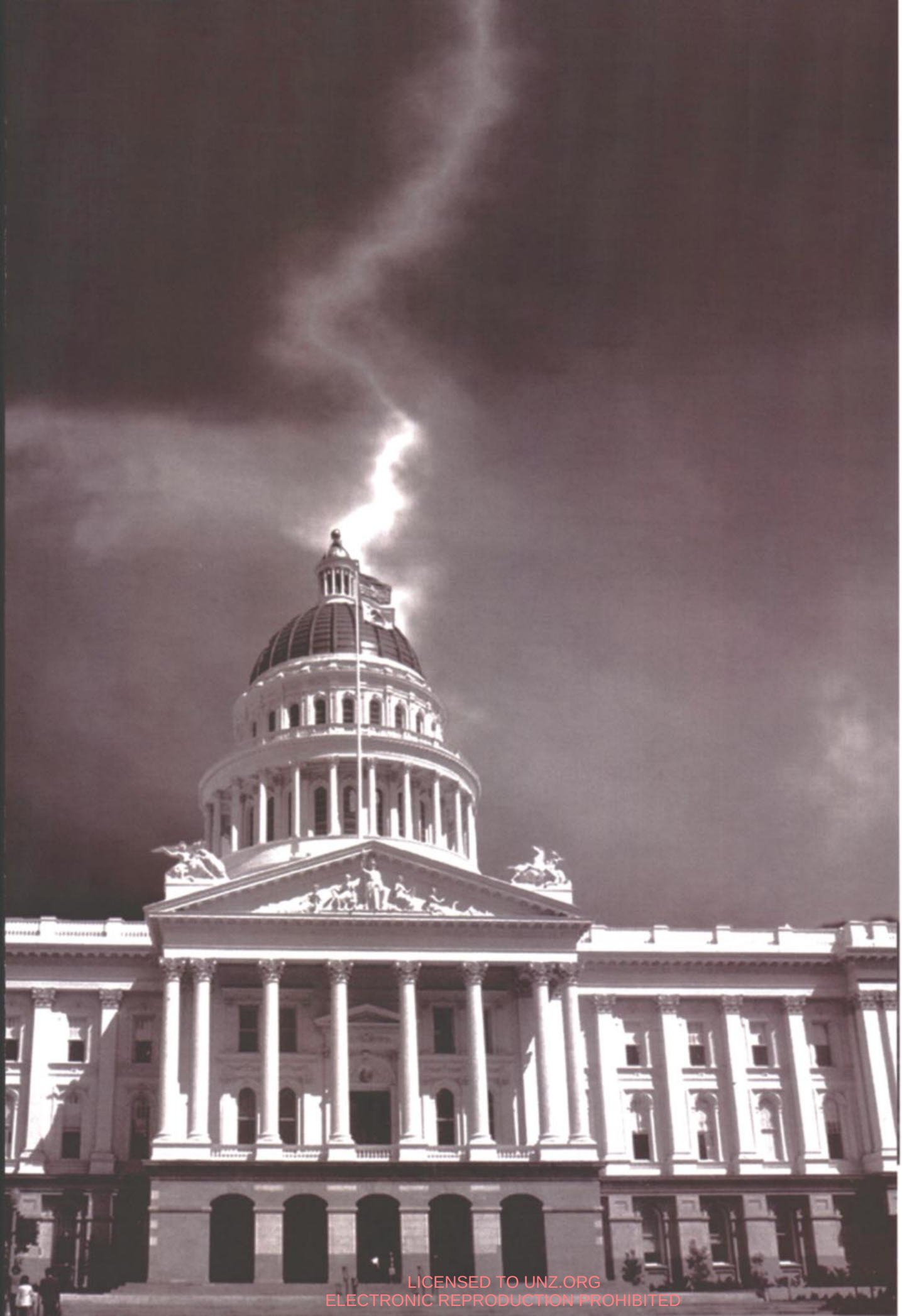

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state buys wholesale power supplies. Nor do they like California's unwieldy amalgam of old and new state agencies, each addressing various parts of the power industry's broad arena.

Futhermore, they do not agree on the fundamental issue of how the delivery of electricity ought to be structured in the nation's most populous state. There is, says one legislative leader, a "profound divide" between those who want to return to a near-100-percent regulated world and those who still believe competition can work.

Back to regulation?

Since the problem first surfaced two years ago in San Diego, California policymakers have mostly focused on blame for a broken market-based system. That in turn, has spurred a litigious atmosphere that stymies, or threatens to unravel, efforts to fix the problems. Philosophical disagreements on regulation versus free markets also hampers the quest for long-range solutions.

"I think it is just a fantasy from ideologues to think there can be a truly free market," says Loretta Lynch, the state's chief regulator as president of the Public Utilities Commission (CPUC). She thinks reforms and closer regulation of the competitive wholesale energy market are absolutely essential. "When the sellers or generators try to game the market, they need to be slapped back hard."

Lynch, an attorney, understands that complete re-regulation may not be legally possible at this advanced stage, but she believes there are better ways to control both the volatility and the participants in competitive energy markets.

Nevertheless, there is some evidence that regulation itself gets in the way of developing new power sources, despite efforts to streamline the process. For instance, San Jose-based Calpine Corporation, a state and national leader in the field, had yet to start formal construction on two signature plants in its hometown six months after everyone from the governor to top regulators had blessed the projects.

"I think it is just a fanta
When the sell

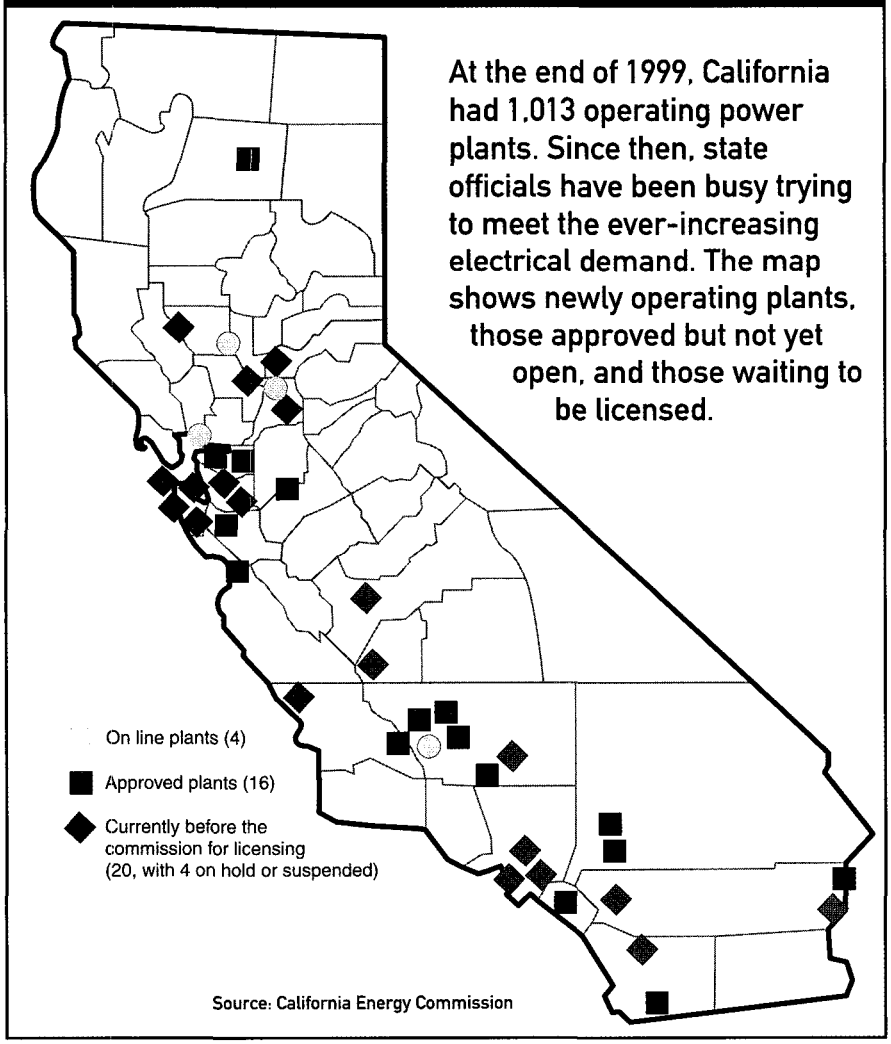
"The state is certainly moving back to more regulation in some form or fashion, and the issue is going to be what is practical and viable," says Robert Weisenmiller, an Oakland-based energy consultant and former policy/program evaluation director at the state Energy Commission. Weisenmiller says that regulatory stability is needed to give the financial and business communities renewed confidence in the state. "The real question," he says, "is, what can the state do to address the big picture?"

Who will build?

Part of that "big picture" involves deciding who will develop and own future power plants, a broad-view approach that many industry stakeholders say must be taken to avoid future problems. But they worry that the state is not up to the task, given that it failed to successfully micromanage huge chunks of the power industry — generation, transmission and distribution. Part of the problem, they say, is too many fingers meddling in the pie.

The need for electricity today is not unlike it was during the mid-1990s, when California required a plentiful, reasonably priced supply. Back then,

Energy Building



At the end of 1999, California had 1,013 operating power plants. Since then, state officials have been busy trying to meet the ever-increasing electrical demand. The map shows newly operating plants, those approved but not yet open, and those waiting to be licensed.

Source: California Energy Commission

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however, only two agencies — the CPUC and the Energy Commission — put the puzzle together. Now, a half-dozen agencies are shuffling pieces around the table; primarily the Department of Water Resources, Electricity Oversight Board, Cal-ISO, defunct and bankrupt California Power Exchange (Cal-PX), California Consumer Power and Conservation Financing Authority, and, to a lesser degree, the state treasurer, General Services Agency and Air Resources Board.

In addition, the state's two major, private-sector utilities (Southern California Edison and Pacific Gas & Electric) are recovering from financial troubles, and cautious private-sector power plant developers are hemmed in by a more skeptical and capital-constrained investment community.

"Something we always hear nowadays from the state is that 'if [private sector developers] don't build new power plants, [the state] will'," says Patrick Dorinson, western communications director for Atlanta-based Mirant Corporation, which has put on indefinite hold a partially constructed power plant in Contra Costa County. "How many plants is the state willing to build? I think the state can run into the same opposition that the private sector is running into. How much is the state willing to invest in power plants? Who will operate them once the state builds them? Will they be staffed with civil servants?"

Hardened attitudes

Although energy suppliers, utilities and others in the industry often feel unfairly targeted by politicians and regulators, they have been unable to dispel the perception that they bend, if not break, rules for the sake of maximized profits. That view has hardened attitudes despite the fact that, since last fall, there has been good news on the energy front. The price-and-supply crunch has eased and dysfunction in the wholesale energy market has stabilized. In addition, regulatory and legal progress has been made toward restoring financial health to Edison and PG&E. Even more dialogue between state and federal regulators has — albeit slowly — begun to emerge.

But the regulatory tenor and negotiating environment are littered with bad feelings on both sides, and California can't truly prepare for its energy future until this distrust melts and the sides can work together. That requires leadership — from someone.

Yet even Democratic leaders in the Legislature seem divided on an approach.

In the Assembly, Energy Committee Chairman Roderick Wright (D-Los Angeles) thinks deregulation hasn't been given a fair shake. Wright, who makes no secret of his desire for a presidential appointment to FERC, argues that political and regulatory leaders have forgotten why California went to its 1996 electricity restructuring in the first place: because, he says, the old regulatory command-and-control system was not working.

> "om ideologues to think there can be a truly free market. ... generators try to game the market, they need to be slapped back hard."
> — Public Utilities Commissioner Loretta Lynch

On the other side of the Legislature — and the divide — Senate Energy Committee Chairwoman Debra Bowen (D-Marina del Rey) points out that the first priority in any new market structure ought to be the state's consumers.

"That has to be the focus: the consumer," says Bowen. "And when I start with that question, I get a different market structure and probably a different institutional structure [than the current situation]. The decision on what the market looks like for consumers should drive how we regulate.

"The most important thing now is

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to continue the work on the customer side of the meter — the demand-side management and the pricing signals," Bowen adds. "Work on those sets of issues will pay off regardless of whether we eventually go to a market-based system, state and municipally based power, or a competitive system. And they also require the existing [state energy] bureaucracies to work together in a much more effective way than they have."

The state, Bowen explains, needs to address two separate issues: mop up side effects of last year's emergency response and set a longer-term course. For Bowen, restructuring the agencies fits in the latter category.

One veteran Republican state legislative consultant thinks lawmakers and state policymakers are "disgruntled, but not motivated" after the 2001 crises, emergency orders and extraordinary legislative sessions. However, consultants for both Republicans and Democrats agree that, with the state facing a huge budget deficit and the electricity bonds still not sold, the political climate might be ripe this summer to fix California's energy regulatory infrastructure. Bowen, however, cautions that the "politics of an election year" push against anything getting done.

Too many fingers

A variety of stakeholders expressed different frustrations over whether anything is being done to correct fundamental problems that created the crisis. They see the economic and the political problem tied to adequacy of supply, and they want a glut of power capacity in the future, which is more realistic in a regulated rather than market-based environment.

"First, the state has to determine who the [retail power sellers] are, and then it has to require they have sufficient reserves — either on hand or under contract," says a Sacramento-based utility veteran, Jerry Jordan, executive director of the 30-member California Municipal Utility Association. "That way you don't have the supply shortage situation we had last year, where it is more profitable for people to play the [more volatile, wholesale] spot market than to sign long-term contracts. You have to define who is going to be responsible before you decide what to do with the power authority. Right now [the authority doesn't] have anyone to sign contracts with. The power authority has to have a contract in place before it can finance a plant."

At the heart of California's lack of consensus is a sort of balkanized energy network that has developed over the past six years — first as a result of the restructuring and more recently as a result of its failure. Because so many agencies can meddle in the electricity arena, state regulators and others complain that no single entity is accountable. The Consumers Union, for one, recently called on Governor Gray Davis to hold the state's energy agencies more accountable for assuring reliability of electricity at so-called "fair" prices.

For her part, the CPUC's Lynch sees the state doing whatever it can to

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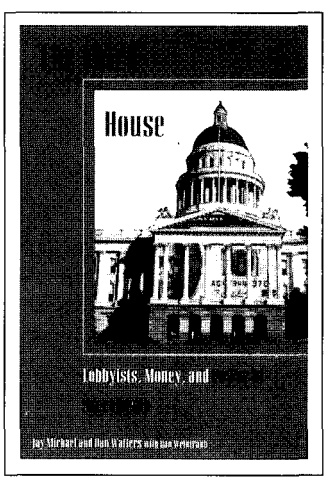

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keep energy infrastructure owned by state-regulated, private-sector utilities. For instance, she accuses PG&E of trying to make a "regulatory jail break" as part of its Chapter 11 bankruptcy reorganization plan by spinning off its remaining non-distribution assets for both electricity and natural gas, such as nuclear and hydro plants. Along with market reform, Lynch sees winning the battle with PG&E and squeezing down utility costs as the political key to avoiding further retail rate increases. Ultimately, Lynch thinks the state can get by with two agencies — one for operations to handle the infrastructure, and a second one for regulations to handle costs and prices.

S. David Freeman, the public power guru who emerged from last year's power crisis as the closest thing to a state energy czar, reportedly tried without success to get the governor to place all of the energy operations under him before being named by Davis to head the newly created state power authority: the California Consumer Power and Conservation Financing Authority.

Many political and industry leaders privately say the state has too many energy-related agencies, and some of the newest ones, such as the power authority and the Electricity Oversight Board should be abandoned.

"Free marketeers," as Lynch likes to call energy companies, have tried to "fracture accountability among state agencies, hoping to game the market in the confusion and overlap but the pendulum is swinging back the other way." The governor and the Legislature (through an emergency energy law passed last year) have already mandated the CPUC to apply a "cost-of-service" approach to utility costs.

By the end of the year, the state is slated to get out of the electricity purchasing business, leaving the old standbys — CPUC and California Energy Commission — along with the lone remaining creation of the deregulation law, grid operator Cal-ISO. Its role grows in importance if current FERC initiatives prevail to create large, multi-state "regional transmission organizations," or RTOs.

But the existence of RTOs also poses a policy question for California: Can it remain a political and economic island tethered to interstate pipelines, power lines, water ways and capital, and still be unwilling to join a multi-state RTO?

Last year's energy crisis clearly exposed this as the state's Achilles' heel as indicated by the fact that the only way FERC could provide relief to California was to impose wholesale power price caps throughout the western states. Any eventual lasting reorganization and changes within the state need to consider whether California is prepared to forsake its island mentality, a final remnant of the boom-bust 20th century.

Richard Nemec is a Los Angeles-based writer who covers energy for several national trade publications. His last article in California Journal *appeared in the May 2001 issue. Comments may be sent to* **edit@statenet.com.**

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The Island of California

by Marc Sandalow

From the cozy confines of California, many Democrats can't hide their giddiness over the party's future.

The Democratic governor is so rich he buys an opponent of his choosing and brashly predicts he will win re-election by "double digits." The party's 20-seat advantage in the Assembly and 12-seat margin in the Senate look safe and may well expand. The congressional delegation, the nation's largest, is getting bigger, with Democrats already holding a 32-to-20 seat advantage.

But California, more than ever, is a political island. Six months before the 2002 election, Democrats outside the Golden State are in a world of trouble.

Ask a Democratic strategist in Washington to name a good reason not to fear November's election and they will repeat seven words which reek of electoral doom: "Six months is an eternity in politics."

It's a good point but a lousy rallying cry for a party that just last summer looked like it was on the verge of taking back Congress and turning President Bush's contested election victory into a four-year political nightmare.

Today, the Republican president, who lost in California by 1.3 million votes, is the most popular commander-in-chief in modern history, with sky high approval ratings for an unprecedented seven consecutive months.

Republican governors preside over six of nation's seven largest states (California is the exception). The GOP is once again expected to hold onto its slim House majority, overcoming a century-old trend during which the party in control of the White House lost seats in 23 of the past 25 non-presidential year elections.

And for the first time in the annals of polling, more Americans identify themselves as Republicans than Democrats. Just 18 months after the most evenly divided presidential election in history, it can be argued that were it not for California's allegiance to Democrats, the nation would be firmly in the hands of the Republican Party.

"If this trend continues to exist, and Republicans come out of the 2002 elections perceived by the voters as they are today, the 2004 election could potentially be the biggest sea change to the political landscape in decades," concludes GOP pollster Ed Goeas, co-director of the bipartisan Battleground Poll.

So why does California zig as the nation zags? There are numerous explanations. But consider three factors which most Californians take for granted: diversity, natural beauty and Republican disarray.

The rising influence of Latino voters in California and their overwhelming allegiance to the Democratic Party has been well documented.

And nowhere is the gender gap so pronounced. Of the 34 Democrats who represent California in Washington, 18 are women, including Senators Dianne Feinstein and Barbara Boxer, who made California the first state to elect two female senators simultaneously. Of the 20 Republicans, Mary Bono is the only woman.

> ...were it not for California's allegiance to Democrats, the nation would be firmly in the hands of the Republican Party.

"Republicans simply do not express the diversity of California," said Mark Baldassare, program director at the Public Policy Institute of California.

Natural beauty is something taken for granted by many Californians too busy fighting bridge traffic to notice the panoramic vistas that surround them. Yet the magnificent landscape explains the state's devotion to the environment and energy conservation, issues that strongly favor the Democrats.

The California perspective is encapsulated in legislation offered by Boxer entitled: "The California Coastal Protection and Louisiana Energy Enhancement Act." Where Californians look at oil derricks and picture environmental calamity, Louisianans see jobs. That's why Boxer has proposed swapping California drilling rights to the Gulf Coast, and won the support of politicians from both states.

And finally, Republicans of all stripes have learned to live in harmony in most places. Not in California. "It's the political equivalent of Kabul" is the way one veteran of state campaigns described it.) If Jesse Helms, Tom Delay, and Rudy Giuliani can all occupy the same stage, so too should Bill Simon, Bill Jones and Dick Riordan.

All of which makes California a fascinating case study for both parties. If Republicans can find a way to spread their fortunes to the Golden State, they will have a stronger grip on the nation than in anytime in memory. If Democrats can figure out how to replicate their California success across the country, it won't be long until Gray Davis starts talking about the presidency.

— Contributing editor Marc Sandalow is the San Francisco Chronicle's *Washington bureau chief. Comments may be sent to* **edit@statenet.com**

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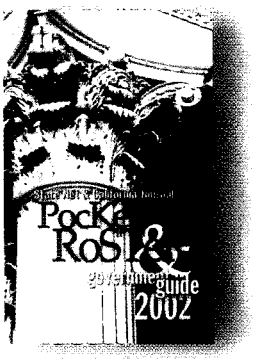

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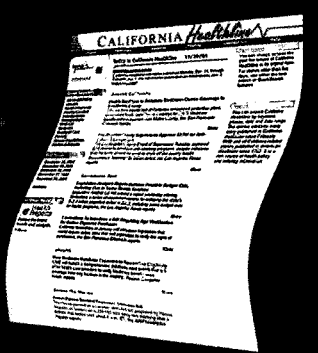

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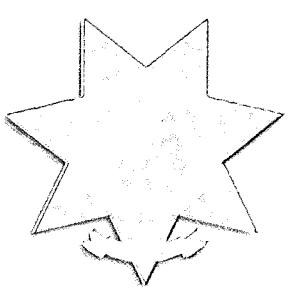

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